Investment Bankers Association Convention Issue

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Hints on Investment Hedging

By MELCHIOR PALYI

Dr. Palyi, holding indications are overwhelming that global inflation has not run its course, and even most carefully managed boom is bound to come to an end, points out hedging policies of past inflations are futile. Sees possession of "substance" logical way of hedging, if conditions are satisfactory, but because gold is unavailable, contends common stocks are a limited hedging haven, along with real estate and one's own business.

The extraordinary uncertainties of our times raise the question, more forcefully than ever before, of hedging against them from the investor's point of view. They create more confusion, too, than ever before. At the risk of being platitudinous, a reminder of some "first principles" should be apropos.

Dr. Melchior Palyi

To begin with, investment for hedging—which is what we are discussing, disregarding short-run hedging maneuvers on commodity and security markets, and generally speaking in current transactions—can be only of the long-term character. It is senseless to think in terms of hedging and to expect to sell the hedge the next morning at a profit. But that is exactly what many people do, or think of doing, especially in connection with common stocks. No one can tell how long the Long-Run is. But he who seeks protection against the abnormal risks inherent in this kind of world, must distinguish that need from the desire for quick capital gains. "Patience" is not just a virtue

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Investment Bankers Association of America Holds 37th Annual Convention

Meets at Hollywood Beach Hotel, Hollywood, Fla., Dec. 5-10. Hears addresses by Julien H. Collins, retiring President, Clarence B. Randall, General Robert L. Eichelberger, Dr. Marcus Nadler and the newly elected President of the Association for the ensuing year, Hal. H. Dewar. Receives Committee reports.

The 37th Annual Convention of the Investment Bankers Association of America was held at the Hollywood Beach Hotel, Hollywood, Fla., from Dec. 5 to 10, inclusive. The Association elected as President for the forthcoming year Hal H. Dewar of Dewar, Robertson & Pancoast, San Antonio, Texas, who succeeds Julien H. Collins of Julien Collins & Co., Chicago. The Vice-Presidents elected were Albert T. Armitage of Coffin & Burr Incorporated, Boston; Hazen S. Arnold of Braun, Bosworth & Company, Toledo; John F. Fennelly of Glore, Forgan & Co., Chicago; Joseph T. Johnson of The Milwaukee Company, Milwaukee; and Laurence M. Marks of Laurence M. Marks & Co., New York City.

Hal H. Dewar

The principal speakers at the Convention, in addition to Julien H. Collins, the retiring President, and Hal H. Dewar, the incoming President, were Clarence B. Randall, Assistant to the President of the Inland Steel Co.; General Robert L. Eichelberger of the United States Army, and Dr. Marcus Nadler, Professor of Finance at New York University. The addresses of Messrs. Collins, Dewar and Nadler are contained in this issue of the "Chronicle."

The new Board of Governors named by the respective regional groups are:

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George W. Davis, Davis, Skaggs & Co., San Francisco; Edward C. Henshaw, Brush, Slocumb & Co., San Francisco; Benjamin A. Walter, Bingham, Walter & Hurry, Los Angeles.

Central States

S. R. Kirkpatrick, Kirkpatrick-Pettis Co., Omaha; Richard W. Simmons, Blunt Ellis & Simmons, Chicago.

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PICTURES taken at IBA Convention and of the new Association Officers and Governors appear in the PICTORIAL Section. Addresses and committee reports start on page 17.

EDITORIAL

As We See It

Confusion Still More Confounded

During the past national campaign one of the most frequently heard arguments of those promoting the candidacy of President Truman was to the effect that a "boom" was under way which would, if not controlled or checked, inevitably sooner or later end in a catastrophic "bust." Particular remedies proposed for dealing with the situation varied from doctor to doctor, but there was of course general agreement that the first step was to reelect President Truman. Whether this line of argument had anything in particular to do with it or not, President Truman now finds himself in the White House to stay for another four years.

He has four years ahead of him, but he has his utterances and those of his supporters during the past four months or so immediately in front of his eyes. First of all, he can hardly forget the undertaking that he will keep business going strongly and smoothly, giving employment and high real wages. He has in effect given assurance that for the length of his service at all events

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A Merry Christmas

What Stocks to Own in 1949

By EDMUND W. TABELL*
Partner, Walston, Hoffman & Goodwin
Member, New York Stock Exchange

After describing methods, approaches and limitations in stock market analysis, Mr. Tabell traces probable effects of recent developments on stock price trends. Looks for corporate earnings to decline from 10% to 33% in 1949, but holds market has already discounted this. Predicts low point in stock prices in first quarter of 1949, but looks for no serious business slump. Points out importance of selectivity in 1949 market both as to groups and individual stocks, and places rails as having best possibilities of appreciation, followed by building and machinery industries.

Before going into our main topic, which is the outlook for the market and the outlook for individual stocks, perhaps it might be advisable to examine the background of the technical approach. There are two approaches to the market: One, the fundamental approach; and the other, the technical approach. They are both extremely valuable and used in conjunction with each other, and are much better than the use of either one by itself.


Edmund W. Tabell

The fundamental approach is a study of the causes of why security prices fluctuate. Its main concern is the broad, economic trend. It takes into consideration many fundamental things such as bank clearings, interest rates, commodity prices, purchasing power and the more intangible factors such as the foreign situation. It also relates to the many facts relating to the management and operation of individual companies as revealed by earnings statements and balance sheets. The fundamental approach is the field of the economist and security analyst.

We are not so concerned with causes. We are more concerned with the effects that these causes may have on security values. The technical approach is based upon the principal that the market is its own best barometer and that the supply and demand of stocks will govern the market's future moves. The technical approach requires the study of a vast amount of technical data in order to evaluate the relative strength of the buying and selling pressures which cause the fluctuating willingness to buy or willingness to sell of countless number of investors and speculators not only in this country but all over the world. Briefly, it is a study of supply and demand; a study of the effects which fundamental changes cause in the price trends of shares. It requires exhaustive research by trained and competent technicians.

As I said before, both approaches are extremely useful. Both have their strong points and both have their weak points. Possibly the weakest point in the fundamental approach is the fact that it does not take into consideration the psychology of the investing public.

Quite often stock will be earning $3 a share and will sell at $100 a share; and quite often, as is true today, a stock will be earning $3 a share and be selling at $10 a share. Now, that was true because the psychology of the investing or speculating public was extremely optimistic in the first instance and the reverse in the last case.

The investing and speculating public can often go to wild extremes of optimism or pessimism. Quite often these changes in mood are not timed to fundamental changes. In many instances, the market will anticipate a fundamental change and discount it. In other cases, the market will refuse to recognize a fundamental change until long after it has occurred. The additional use of the technical method, which is a study of the effect of fundamental factors plus psychological factors, will quite often result in obtaining the maximum opportunities which fundamental studies suggested.

Use of Technical Approach

One reason for the increasing use of the technical approach is that it is often more direct than the fundamental approach. Without the compulsion of broad economic training or the constant study of individual industries it is possible to be aware of the important changes in price trends. However, its relative simplicity is perhaps its greatest danger. If you believe that by the use of a few technical gadgets you are on the road to a life of ease, you are in for a cruel disillusionment.

To really do a good sound job on a technical approach requires a great deal of work and a great deal of training to really properly evaluate the different technical factors. Possibly the best way I can illustrate is the type of work that we do at my office of Walston, Hoffman & Goodwin.

We have, roughly, charts and graphs on almost every stock listed on the New York Stock Exchange and the more important speculative bonds and the more active issues on the New York Curb. In addition, we also have charts on the various market averages such as the Dow-Jones, the New York "Times," the New York "Herald Tribune" and "Standard & Poor's." Also, we have data on the more active commodity futures. This data is in the form of point and figure charts of which I will tell you more later. Taking into consideration the various charts of half point, one point and three point fluctuations, we have over 2,000 charts of this type showing fluctuations over the past 10 years or more. In addition, we have available over 900 monthly range charts. We have various moving average studies, together with net changes and oscillators. We have various so-called breadth of the market graphs which include studies on volume, number of advances and declines, highs and lows, short interest, issues traded, odd lot purchases and sales. We also use various buying and selling pressure gauges.

The physical labor of keeping this data up to date requires a full eight-hour day of one person. The study and interpretation of the graphs requires a lot more additional time. The forecasts are not based upon one single indicator. Each graph or chart is checked against many others before a conclusion is arrived at. With all of this checking and double checking, I am very happy if we get 70% accuracy in forecasts. I consider that above average.

I do not mean to discourage you from doing technical work. But if you are going to base your buying and selling decisions on such graphs before you have had adequate training, I warn you against it.

Conceding that both approaches have their strong and weak points, it would seem evident that a combination of both approaches should bring better results than a blind adherence to either approach. In fact, many of the larger groups and individual investors use both approaches, if only for checking purposes. In my own work, which obviously is concentrated on the technical approach, I find the fundamental approach is of inestimable value in substantiating technical evidence or, in some cases, as a warning, when the technical picture has only a potentially attractive pattern. I believe a great many followers of the fundamental approach would be saved from some serious errors if their attention were drawn to potentially favorable or unfavorable situations by the occasional use of the technical approach.

Prospects for Stock Price Enhancement

So much for that. Our main topic is the stock market and what issues present the favorable opportunities for price enhancement in 1949.

A year ago this month, I predicted that the stock market would reach the low for the year in the first three months of 1948. This proved correct as the lows were reached in February. The rest was not so good. I expected a high in mid-year close to the 200

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*Stenographic report of an address by Mr. Tabell made under the auspices of Draper, Sears & Co., Boston, Mass., at the Boston Stock Exchange, Boston, Mass., Dec. 14, 1948.

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New Capital and Equities Market

By THEODORE PRINCE, L. L. M.*
Investment Counsellor

Commenting on business capital expenditures since end of war, Mr. Prince points out much of the funds were applied to war purposes, and therefore shortages of capital goods and labor cannot be made up for some time. Holds continued plant expansion and reduction of costs can mean difference between prosperity and deflation, and thus importance of more equity financing is indicated. Stresses cheapness of common stocks in terms of commodities, wages, book values, and other factors and lays this to absence of high optimistic note in general business.

There can be no question that the election did give a shock to business generally. But business, big business of the Government, State, cities, local governments and of the important corporation supplying the major part of our capital goods is too big to be stopped or interfered with by an election which maintained the present party and a Congress — a majority of which (in both houses) voted against the veto of the Taft - Hartley Act.

Theodore Prince

The Keystone Custodian Fund has made a study of the 50-year record of the Dow-Jones Industrial average since 1897 during which period it appears that the Republicans and Democrats have been in office about the same number of years and during that period the stock market has not deviated substantially under both administrations.

Without going into the details of the compilation it is sufficient to say that the four periods had an extraordinary consistent pattern of cyclical succession of bear and bull markets so that it will appear that neither the Democrats or the Republicans can claim any particular credit for the bull markets or be particularly charged with the impact of bear markets.

During the last 19 years (since 1929) expenditures on plant and equipment have been abnormally low and in some years, not large enough to offset depreciation, on the authority of Sumner H. Slichter, eminent economist and professor of Harvard University. The tremendous shortage occasioned by a great war has monopolized the flow of steel to expansion and improvement of machinery for efficient production and reduction of labor cost. Since 1929 our labor force has increased by 12 million and the population by 20 million.

Professor Slichter states "there is now even less capital per worker in American industry than 20 years ago. In addition, many plants are far too small to meet economically the current demand for their product."

Our vast business will attempt to continue on its comprehensive activity never catching up in full with all, but remaining behind, particularly in the capital goods for some time. Nevertheless, the various classes of consumers of Europe, Government, City, Country, State, business and individual will continue to take up slack here and there left by some industries and awaiting preference in others as in steel. But all in all, for some time to come, vast production will need the army of 61 million employed; the large income generated and disbursed for more goods than are available will keep the bust from the door and fortunately the boom in the house for the present.

Hence, a drop in business spending which would make a large output of automobiles, durable household and other items possible would lead to a large consumer outlay. An indication of the inconsistencies of the flow of demand against cash and deposits would appear from the following.

The year 1939 was a year that was not so long past the depression of the 30's from which the country had not yet emerged and there were 9 million unemployed. Further, it was the year between Munich and the outbreak of the Second World War. Yet today, where we would expect with greater consumers prosperity, they would be spending more money for household durable goods, automobiles and other items than in 1939, they are really relatively spending less. For these personal holdings of bank deposits and cash were then $35½ billion. and expenditures for consumer goods of all kinds were $67½ billion or 1.90 times such personal holdings of money. Today these holdings are $102.8 billion and consumers' expenditures are running at the rate of $175 billion a year or 1.70 times such personal holdings.

Professor Slichter states, "This happened between the first quarter and the second quarter of 1948. During that time the annual rate of business spending dropped from $38.5 billion to $37.2 billion, but this was more than offset by a rise in the annual rate of spending for consumer goods from $172.0 billion to $175.1 billion."

The war has increased shortages of capital goods and labor which have not been made up and cannot for some time. Accordingly, when consumer spending eases local governments will make up the difference; overall the great Federal expenditures is compet-

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*Theodore Prince is an economist, investment counsellor and lawyer specializing in corporate practices and taxes and a financial circle figure for 30 years, and was for 20 years head of the Stock Exchange firm which bore his name.—Editor.

Dangers of Government Bond Unpegging Exaggerated

By JULIAN G. BUCKLEY

On basis of an analysis of classes of U. S. Government obligations, together with their distribution among various groups, Mr. Buckley contends, if present price pegs were removed, Federal Reserve problem of supporting market for bonds would not be serious and no market panic or ill-advised selling would ensue.

Ever since the Election many economists and financial writers have been stating that the continuation of the pegs on government bonds is now a certainty. They point to the numerous pronouncements of the Treasury and the Federal Reserve authorities as well as to the administrations' election platform of **controlled economy.** But their main argument seems to be that with a debt of $250 billion, panic and economic disaster would result if the pegs were withdrawn and a free market allowed to operate. Recently two leading money market experts (within 24 hours of each other) at public meetings quoted Shakespeare's Hamlet; as follows:

Julian G. Buckley

"And makes us rather bear those ills we have than fly to others that we know not of"

This seems like a cowardly attitude at worst and at best an oversimplification of the problem. Rather it might be better to quote from Shakespeare:

"Courage man; the hurt cannot be much"

It is the purpose of this article to analyze the total debt of the country of about $250 billion. The following is a summary of this debt, broken down into principal items starting with those issues least liable to influence the bond market and running down to issues which might have a greater effect.

TABLE I

	9/29/48 (In Millions)
Special Issues	$ 37,423
Marketable Issues held—	
By Trust Accounts	3,739
By the Federal Reserve System	23,280
U. S. Savings Bonds	54,776
Bills, Certificates and Notes	32,067
U. S. Government Bonds—	
Under 5 years to call	45,026
5 to 10 years to call	9,608
Over 10 years to call	44,838
	$250,757

Special Issues

These issues, totaling $37,423,000,000 are, as their name implies, U. S. Government Bonds issued by the U. S. Treasury and turned over to the various government trust accounts. In addition these trust accounts can and do buy a certain amount of marketable issues. The principal trust accounts include the Unemployment Trust Fund, the Federal Old-Age and Survivors Insurance Trust Fund, and the Railroad Retirement Account. It is obvious that these bonds are not any threat to the market. In fact the various trust accounts during three fiscal years ended June, 1948 made an investment in U. S. Government bonds (not all of which were special issues) of an average of about $3,363,000,000 a year. Thus the trust funds are an important factor contributing to the support of government bond prices.

Securities Held by the Federal Reserve System

As of Sept. 29, 1948, these amounted to 23,280,000,000, comprising bills, certificates and notes of $14,078,000,000 and U. S. Treasury Bonds of $9,202,000,000. However, by Nov. 17, 1948 the composition of these holdings had changed fairly drastically for the period involved. Bills, certificates and notes had decreased to $11,773,000,000 and bonds had increased to $11,156,000,000, illustrating the effect of the support program of the Federal Reserve System. It is equally clear that these securities held by the Federal Reserve System are no threat to the market unless the Federal Reserve authorities should so desire.

U. S. Savings Bonds

A number of governmental authorities and money experts have expressed the fear that if the pegs were reduced and U. S. government bonds allowed to sell below par, there would be a loss of confidence on the part of the holders of these savings bonds and wholesale redemption would result.

However, the redemption price of the Series G Bonds declines each year to $94.70 and the appreciation of the Series E Bonds is very slow until the years relatively near to the maturity date. In other words, by redeeming these bonds, the individuals would give up a maturity yield almost impossible to replace with anything like the same security.

The following tabulation shows the amounts of Series E Bonds held (as of Sept., 1948) by maturities with the approximate yields on the redemption prices for the unexpired term of the bonds from redemption to maturity.

TABLE II

U. S. Saving Bonds Series E

Maturity	Amount Held (000,000)	Yields (or Remaining Term to Maturity)
1951	$ 1,121	4.26%
1952	4,105	4.36
1953	5,935	4.18
1954	6,775	3.37
1955	5,427	3.66
1956	2,849	3.52
1957	3,107	3.25
1958	2,655	3.05
Total	$31,932	*3.70

*Weighted average.

It can be seen from the above that the yield to be replaced would range from 3.05% to 4.36% and the weighted average yield would be 3.70%.

At the present time, the U. S. Treasury 2½% bonds due Dec. 15, 1972 are selling at 100 8/32 and yield 2.48%. To make it advantageous for the holders of the U. S. Savings Bonds to switch to these long-term Treasury Bonds from a yield standpoint alone, the Treasury Bonds would have to drop from their present price of 100 8/32 to approximately 81 at which price they would afford a return of 3.70%. It is also possible to make a similar comparison with the Series G Bonds and the comparison here, while somewhat less striking, is still applicable.

Also it is believed that the financial authorities have overemphasized the sancitity of par for U. S. Government Bonds. Some months ago the Treasury officials were reluctant to allow even the U. S. Treasury certificates to go below par for fear there would be loss of confidence in the government credit. However, after some discussion, the U. S. Treasury Certificates were allowed to go below par and still are selling there without unfavorable results.

Bills, Certificates and Notes

The total bills, certificates and notes, including those held by the Federal Reserve System, as of September 29, 1948 amounted to $46,145,000,000. These are broken down into $12,628,000,000 of bills due within 90 days or less, $22,294,000,000 of certificates due in a year or less and $11,223,000,000 of notes due in two years or less.

It has been frequently, and correctly pointed out that this figure of short-term debt is too large in comparison with the total debt and it has been suggested that a substantial part of this short-term debt should be refunded into longer maturities preferably after 1972. However, purely from the standpoint of the Federal Reserve System supporting the pegs on long-term bonds, it seems clear that little if any of this short paper would be thrown on the market if the pegs on long bonds were withdrawn.

U. S. Government Bonds

An indicated above the U. S. Government Bonds held by the banks, the savings banks and the insurance company can be divided into three catagories; those with call date under five years totaling $450,026,000,000 which are mostly held by the commercial banks; those with maturities to nearest call date of from five to ten years totaling $9,608,000,000 which again are preponderately held by the commercial banks; and lastly $44,838,000,000 with maturities of over ten years. It is in this last group that the greatest part of the selling has come in the past and might be expected to come in the future.

Of the bonds with maturities over ten years, the savings banks hold about $8,500,000,000. The savings banks have reduced their **total** holdings of bonds from about $12,019,000,000 in January, 1948 to $11,763,000,000 in September, a decline of only about 2.1%. It is not expected, how-

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The New Bilateral System

By PAUL EINZIG

Dr. Einzig, in noting that despite its disparagement in international agreements, the practice of bilateralism is gaining, sees Britain requiring imports of essential goods instead of luxuries, thus necessitating reciprocal agreements restricting and regulating imports.

LONDON, ENGLAND.—In theory the bilateral method of trading has been outlawed in a number of international agreements during recent years, such as the Lend-Lease master agreement, the Bretton Woods Pact, the Loan Agreement of 1945, the Geneva and Havana Agreements and the Marshall Plan Agreements. In practice, bilateralism is gaining instead of losing ground. Gradually the system has assumed a new and much more rigid form. Under the pressure of practical necessity it is developing in a new direction.

Dr. Paul Einzig

The evolution of basic foreign trade policy in Britain shows a remarkable trend. Before the first World War it was considered a matter of indifference whether or not the international accounts were balanced. During the 'twenties there was a growing tendency to aim at maintaining a balance between the grand totals of visible and invisible imports and exports in relation to all countries; it was a matter of indifference whether within the grand totals the figures in relation to any particular country show a large deficit or surplus. During the 'thirties this multilateralist conception gave way to the bilateralist conception under which trade with individual countries was sought to be balanced; it was a matter of indifference whether equilibrium was achieved through the export or import of luxuries or necessities.

Since the end of the second World War efforts have been made to achieve a certain degree of equilibrium between the import and export of luxuries in relation to particular countries and between the import and export of necessities. It is no longer considered sufficient if Britain's trade with a particular country is balanced. The aim now is that in return for the export necessities Britain should import necessities and that in return for admitting the import of luxuries from a particular country that country should admit corresponding quantities of British luxuries. Needless to say, the principle is not sought to be applied in relation to every country. But, then, nor was there ever any attempt to enforce bilateralism in the old sense of the term in relation to all countries. And even in relation to countries to which the system is sought to be applied, no attempt is made to apply it too rigidly.

The reason for this development of the new system lies in the relative scarcity of essential goods, whether food, raw materials of capital equipment. The volume of exportable surpluses of essential goods is limited and most countries are anxious to sell such goods in a way as to obtain either hard currencies, which could be spent anywhere on anything, or essential goods. The British Government feels that if Britain were to export coal, steel, railroad engines and other essential goods without making sure of payment in such form, she would receive payment mostly in the form of luxury imports and she would not then have enough resources to pay for her imports of essential goods. Before the second World War it did not matter if a country bought mainly essential goods from Britain and sold mainly unessential goods in return, so long as imports and exports were fairly evenly balanced. But at that time there was large-scale unemployment in the British industries producing essential goods, so that the demand could easily be satisfied. Today, there is a scarcity of labor in these and most other industries. If Britain were to sell her limited exportable coal surplus in return for the import of cosmetics or wines there would be no coal available to be offered in return for timber.

A situation has developed in which every country is anxious to export mainly luxuries and to import mainly necessities. In the absence of some measure of agreement foreign trade in luxuries would come virtually at a standstill, for most countries would ban them. This was done by many governments during the last few years and, it was only when other countries retaliated by banning luxury imports from the countries concerned that the need for regulating the situation came to be realized. As a result of bilateral negotiations, many agreements have been concluded for the import of luxuries on a basis of reciprocity. At the same time, the bilateral pacts contain clauses providing for the sale of essential goods on a basis of reciprocity.

There can, of course, be no question of an exact balancing of imports and exports in luxuries or in necessities. The principle only operates as a broad rule that allows for many exceptions. Some countries have no objections to importing luxuries and are not in a position to export luxuries on any substantial scale. Even between countries which want to balance their trade in luxuries and in necessities there are bound to arise marked discrepancies. But if a government suggested to London that in return for electrical equipment it would sell perfumes such an offer woud be rejected out of hand. Before the war it would have been accepted, since the net result of the arrangement would have been the balancing of the accounts between the two countries. At present, however, and so long as the shortage in the supplies of essential goods continues, the British Government would insist on importing essential goods in return for a substantial proportion of the proceeds of the sale of electrical equipment.

There is even a slight tendency to discriminate within the broad categories of essential and unessential goods. All this is contrary to the principles of multilateralism established in many agreements. So long as world conditions remain as unsatisfactory as they are now those agreements are bound to remain impracticable.

Joins Clarence Troup Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Archibald R. Troup hos been added to the staff of Clarence Troup & Co., 231 South La Salle Street, members of the New York and Chicago Stock Exchanges.

W. L. Lyons Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOUISVILLE, KY.—William T. Griffin has been added to the staff of W. L. Lyons & Co., 235 South Fifth Street, members of the New York Stock Exchange.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Total industrial output again displayed some slight upturn the past week and continued to hold at a level moderately above that of the comparable week one year ago.

Despite scattered seasonal layoffs which were reported in some areas, employment as a whole remained at a new peak level. However, the falling off in retail trade, together with a cutting down here and there in working forces are not in themselves conducive to a spirit of unrestrained enthusiasm, to say the least.

In the face of these slight but disconcerting trends, Secretary of the Treasury John W. Snyder, addressing a convention of the American Bankers Association in Chicago, stated that while business is basically sound and shows signs of stabilizing around the current high levels, "there is today no strong evidence of over-buying by consumers nor of over-expansion by industry." This may be true to a large extent, but what industry is presently much concerned over, and business is being adversely affected by, are the proposals coming out of Washington with regard to proposed legislation slated for submission to and enactment by the new Congress.

* * *

On Friday, last, a Presidential Emergency Board submitted the following recommendations for settlement of a pay dispute between the railroads and 1,000,000 non-operating employees: A proposal that a boost of seven cents an hour be made in wages retroactive to Oct. 1, last, and that a reduction in the work-week from 48 hours to 40 hours, next September, with hourly pay to be increased at that time almost sufficiently to offset the reduction in hours.

Spokesmen for both sides expressed the hope that the above recommendations will lead to a settlement of the nine-month wage controversy which could bring on a nation-wide rail tie-up early next year. The unions—under provisions of the Railway Labor Act—will be free to strike Jan. 17 if no settlement has been made.

* * *

Based on advance reports from 82 Class I railroads, whose revenues represent 81.3% of total operating revenues, the Association of American Railroads on Monday, last, estimated that railroad operating revenues in November, 1948, increased 8.1% above the same month in 1947. The estimate covers operating revenues only, and does not take into account substantial increases in operating expenses that have taken place since November, 1947, as a result of increases in wage rates and material prices.

Estimated freight revenue in November, 1948, was greater than in November, 1947, by 9.2%, but estimated passenger revenue decreased 0.2%.

* * * *

Total retail volume rose very noticeably last week as Christmas shopping approached a seasonal high. The dollar volume of retail purchases was slightly above that of the similar week last year. The demand for toys and gift merchandise continued to rise.

Wholesale order volume bolstered by numerous re-orders, remained very high and was close to that of the corresponding week a year ago. Holiday merchandise was re-ordered in substantial quantity with buyers insisting upon very prompt delivery. Collections, it was noted, continued to be slightly slower than last year.

STEEL OUTPUT SCHEDULED AT LOWER RATE DUE TO CHRISTMAS HOLIDAY

Steel people aware that more increases in steel may price this product out of some markets, will still have to increase prices again if wages go up in 1949. The only reason further boosts have not been made in base prices is because economies and better utilization of equipment have kept rising steelmaking costs in check, states "The Iron Age," national metalworking weekly, in its current survey of the steel trade.

For the near future there is no chance of any across-the-board, or general, increase in the base price of steel products. Adjustments which are made will come in extra charges which are being revised as costs dictate a higher return. Most of the extra charges recently have come about because of increased prices mills have paid for raw materials needed to produce coated steel items, the magazine notes.

One thing is certain—there will be no general reduction of steel prices next year. And for that reason those handling steel inventories have no fear of losses because of holding this material.

The worries of the steel industry are not shared by steel labor, the above trade authority points out. Next year will be its last chance for some time to go after a large raise—not in cents per hour but in lasting benefits. Steel labor will come out strong before next July for a wage increase, a social security package including bigger and better pensions and insurance. Whether or not steel labor gets more than a moderate increase in wages, the real stumbling block could be the social security plans which will be demanded. It had been thought that it would not strike for such a concession. That is no longer a generally held opinion.

Steel will pour out of furnaces and plants between now and the middle of 1949. If there is to be a work stoppage in steel it will not hit until after midyear. Demand for steel will have a direct bearing on the position steel firms will take on labor demands.

Steel firms have more to face than just wage costs alone. Raw material costs are still slowly rising. Freight rate increases look like a sure thing for next year and equipment prices are not slated for a decline. In the face of these items alone steel will find costs higher next year.

The sad thing for steel people, "The Iron Age" concludes, is the realization that present profits—some of which are being used for expansions and replacements—are dependent to a large extent on the present high rate of output. If there is to be any drop in output late in 1949 there will be a corresponding drop in profits—or a sharp rise in steelmaking costs.

The American Iron and Steel Institute announced on Monday

(Continued on page 70)

Observations . . . .

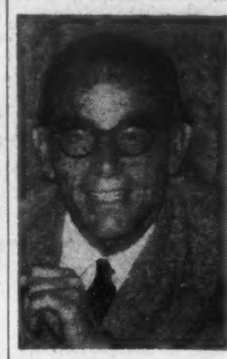
By A. WILFRED MAY

NOT EVEN THE TORIES SNUB SANTA

—CHRISTMAS STYLE NOTE:—

No—it was not Dewey's moustache that caused our disaster; but rather his failure to add a Santa Claus Beard

One important element in the growing adoption of socialist measures that are economically indefensible apparently is being quite generally overlooked. This is the relegation of tests of soundness or moral issues to complete irrelevance, and their complete submergence by the majority's motivations of self-interest.



A. Wilfred May

Such correlation of the citizen's "judgment" with the "pocketbook" interests and the lady gold-diggers' behavior patterns is not at all confined to any particular segment of the population. This has been evidenced by business interests ever since 1932. Many men of finance and business, who before and since that climactic time were unalterably opposed to the New Deal platform, enthusiastically supported Mr. Roosevelt's candidacy in 1932 in the desperate hope that they might thus become bailed out of their difficulties. These same (self-conscious) interests similarly forgot their moral scruples over the sanctity of contract when the abandoning of the gold standard promised them the manna of a rise in the price level. Incidentally, many were able to rediscover the burning moral issue **after their own "emergency" was over.**

In somewhat similar vein now, the financial community's judgment over the real issues as disclosed by the recent election campaign is again subjectively warped by the relatively satisfactory behavior of industrial activity and the stock market. Market and business surveys coming to hand profess great satisfaction over the "good account of itself under difficulties" that the stock market has been giving of itself, in its "countering of misgivings about the Administration's tax and economic objectives." Presumably, a whopping bull market to a 250-Dow Jones Average would lead many to infer the baselessness of all political and social fears.

Whose Ox Gets Gored by an Excess Profits Tax?

Currently again on the Washington scene the dominance of self-interest in the businessman's legislative attitudes is being even more sensationally exhibited. This is seen in the fact of many, if not a majority, of corporate heads actually signifying their approval of restoration of the wartime excess profits tax—in the face of the fact that the permanent validation of such principle of taxation must importantly contribute to the death of corporate capitalism and its eventual management assumption by the state. This is so, not because they do not agree with this broad conclusion as we have stated it, but because of the controlling realization that they will not be among the very small minority—estimated at about 7,000 companies—who because of tests of size or success would be directly affected by the tax.

Additionally, the immediate self-interest of this majority of the smaller and less successful enterprises will be affirmatively served by excess profits tax enactment, through its displacement of the alternative course of a hike in the flat rate. As with so many other bad measures, approval springs from the short view of self-interest without realizing either the broader social implications or that the feared—and supposedly appeased—alternative will later eventuate nevertheless.

Roast Beef Versus Social Theory

When we thus see corporation heads, whose interest is not even confined to their own personal assets, taking the immediate short view, how can we expect the housewife to brush aside the appeal to vote for a reduction in the cost of roast beef to her in favor of seemingly academic economic and social principles prompting the abolition of price controls? Similarly, moral condemnation of rent control in principle might fetch a candidate a few votes, but the promise of direct material protection against the "unconscionable real estate lobby" will win an election. In France, incidentally, this demagoguery has resulted in the cessation of all building of new facilities since 1914.

Since the advent of Britain's Labor Government in 1945 we have witnessed the passage of a long series of laws ranging from the so-called "Building Materials and Housing Act," officially described as "An Act to make financial provision for the purpose of facilitating the production, equipment, repair, alteration and acquisition of houses and other buildings, and to make provision for limiting the price for which certain houses may be let," through the capital vineyard down

(Continued on page 79)

Dunstan Vice-Pres. Of Bankers Trust

S. Sloan Colt, President of Bankers Trust Co., has announced that E. F. Dunstan has been elected Vice-President, and will be in charge of the Bond Department. Mr. Dunstan returns to this post after serving since April, 1947 as Director of Marketing of the International Bank for Reconstruction and Development.

E. Fleetwood Dunstan

Joseph Binford to Form Own Inv. Co.

DALLAS, TEXAS—Joseph Binford is forming Joe Binford Company with offices at 25½ Highland Park Shopping Village to engage in a securities business. Mr. Binford was formerly with Dittmar & Company.

Joseph Binford

Nils Geruldsen V.-P. Of Detmer & Co.

CHICAGO, ILL.—Detmer & Co., 105 South La Salle Street, members of the Chicago Stock Exchange, announce that Nils S. Geruldsen has been elected Vice-President in charge of its Municipal Bond Department.

Investment Programs

CAMBRIDGE, MASS.—Joseph T. Boris, formerly Vice-President of Trusteed Funds, Inc., has formed Investment Programs with offices at 60 Brattle Street, to engage in a securities business.

With McDonald & Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Glen W. Johnson has been added to the staff of McDonald & Co., 1009 Baltimore Avenue.

With B. C. Christopher Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—Owen W. Cotton has joined the staff of B. C. Christopher & Co., Grain Exchange Building.

Pointers on Selling

For clever, helpful hints for selling securities read the "Securities Salesman's Corner," a regular feature in every Thursday's issue of the "Chronicle."

The Job Before 81st Congress

By HON. ALBEN W. BARKLEY*

U. S. Senator from Kentucky

Incoming Vice-President pledges carrying out of Democratic Party Platform. Says authority of standby nature will be asked to impose inflation controls, but not to roll back prices. Doubts re-enactment of excess profits tax unless deemed essential as part of anti-inflation program. Looks for Taft-Hartley Act repeal, but holds Wagner Act may be modified.

I have been asked to give you a sort of preview of the legislative program which may be expected of the incoming 81st Congress and the new Administration of President Truman. It may be presumptuous on my part to attempt this, because I will not be a member of the Senate after Jan. 3, and it is hardly likely that any comprehensive legislation on any subject will be attempted or could be consummated in the 17-day period during which I will remain as a member of that body.

Sen. Alben Barkley

It would also be presumptuous of me to anticipate the recommendations that will be made by the President in his annual message on the State of the Union upon the assembling of the 81st Congress, and later on, from time to time, as circumstances require.

Therefore, I deem it within the proprieties for me to take as my text the platform adopted by the Democratic Convention at Philadelphia, upon which President Truman and I, as well as members of both branches of Congress, made their appeal to the people in the November election.

I realize there is a sort of cynical view sometimes expressed in print and by word of mouth that platform pledges of political parties are not to be taken seriously. A facetious politician once remarked that political platforms are like platforms on passenger trains—made to get in on, but not to stand on.

Neither President Truman nor I, nor the party for which we speak, entertain any such supercilious view in regard to the pledges which we have made and which our party has made to the American people.

The convention which met in Philadelphia meant what it said in the planks which it adopted. I have no doubt the American people meant what they did when by their votes they endorsed that platform. I would not, of course, contend that all of the millions of voters who voted for the successful candidates analyzed in detail every pronouncement of the party which they were supporting. But we have no right to assume, and it would be a violation of our obligation to the people for us to assume, that there was any part of that program for which they voted which they did not expect to be carried out to the fullest extent humanly possible.

The result of the election cannot be attributed altogether to the personality of the candidates. Political parties are not ends within themselves. They are means to an end. They form the agencies through which the people may reach a consensus of opinion concerning public questions, and, at the same time, fix responsibility for the discharge of obligations incurred by any group successful at the polls.

Adherence to Two-Party System

We have been fortunate throughout the history of America that, in the main, we have adopted a two-party system. This system enables the people to fix a more direct responsibility than would be possible by the widespread diffusion of their interests among many groups seeking preferment at the polls.

One of the great difficulties which we see in many parts of the world today grows out of the multiplicity of political organizations in countries where no one political party can command a majority either of the people or of their representatives. Consequently, compromises must be made, in order that a government may be organized and maintained; and even in these countries the result is usually temporary and unsatisfactory.

In a country as large as the United States, and in a society as complex as ours, it is a great tribute to the common sense of the American people that they have been, and are, able to align themselves with one or the other of the two great historic political parties, which have come to feel it their duty to submit to the people a program of action and seek their endorsement of it.

In this way, the people have a simple formula for accepting or rejecting the record or the program of any political party that has attained, or seeks to attain, power through a majority of the people's representatives.

When ever any political party ceases to be the agency through which the people may fix responsibility for their government, that party ceases to be of any further value. Whenever any such political party ceases to represent the consensus of the people's settled opinion and judgment upon one or more, or all, of the problems that face them, that party has no further claim to the support of the people.

It is in the light of this historic tradition and the logic of this inescapable position that I approach the discussion, in general terms of course, of the program which the new Administration may be expected to propose, based upon its campaign commitments.

The Democratic Party Program

It would be impossible, within the limits of time at my disposal, to go into any great detail in regard to this program, for it covers a multitude of subjects. In the domestic field, the questions of inflation; of housing; of governmental expenses; of taxation; of racial or religious discriminations; the reduction of the public debt; the repeal of the Taft-Hartley Act; the extension of Social Security; the increase in the minimum wage scale; the rebuilding and strengthening of the Labor Department; the enactment of a National Health Program; aid to the physically handicapped, to mothers and children; Federal Aid to Education; the improvement of benefits to veterans; the maintenance of agricultural support prices and agricultural prosperity; such aid as may be accorded to small business in its effort to survive; the improvement of our natural resources; the inauguration and completion of essential water projects; the maintenance and extension of the reclamation and irrigation service; the continuation and acceleration of flood control to protect the people from recurring disasters; the reforestration of public lands; the enforcement and strengthening of the anti-trust laws; the maintenance and protection of the free enterprise system, by which we mean the freedom of every American to embark upon any legitimate enterprise under a government that proposes to see that fair competition shall prevail; the increase in the number of displaced persons who may be admitted into the United States; the maintenance of a Merchant Marine to carry American products to the markets of the world; the enactment of necessary legislation to resist Communist aggression within or from without the United States; all constitute a stupendous program of legislative and administrative progress toward the attainment of a fuller and more satisfactory democracy, under a government dedicated to the ideal of equal rights for all and exclusive privileges for none.

Inflation Controls

On the subject of inflation, I think we may take it for granted that the President would repeat his request, made to the 80th Congress, to grant him authority of a standby nature to impose such regulations and controls as may be essential to curb the constantly rising cost of living. Many elements of our economy have entered into the inflationary situation. You are as familiar with them as I am. It may not be possible to roll back prices to any given period. We realized that difficulty in the 60-day hiatus between the expiration and the re-enactment of the Price Control Law in 1946. But we are committed to an earnest effort to bring about legislation that will stop the further increase in the cost of living and the spiral of inflation, which creates and constitutes a vicious circle gnawing not only at the economic stability of our nation as a whole, but also at the economic stability of every individual family in America.

It would be fruitless for me to attempt to outline in detail the provisions of such legislation, but I have no doubt that the Congress will promptly attempt to comply with the commitments which we made on this all-important subject.

Everybody is familiar with the acute housing situation which has existed during and since World War No. 2. In the last 16 years, I think it is fair to say that the government has performed a great service in its effort to encourage the building and maintenance of comfortable homes for the people. We are a nation of home lovers. We like to dwell under our own vine and fig tree. The present cost of housing enterprise makes it difficult, if not impossible, for millions of veterans and families in the lower income group either to build, or buy, or rent, housing accommodations suitable to the American standard of life. We have pledged ourselves to a program of public housing which will, for the time being, bridge the gap between the reasonable desires and financial capacity of the great masses of our people. I have no doubt that such a program will be undertaken.

The Secretary of the Treasury has outlined to you, in a constructive manner, the policy of the government in regard to its fiscal affairs. This is in accordance with the policy which he has followed, and which the Administration has followed, and no doubt will con-

(Continued on page 63)

*An address by Senator Barkley at Town Hall, New York City, Dec. 16, 1948.

Reduced Business Profits Means Government Revenue Loss: Odlum

President of Atlas Corporation affirms government has too great a stake in corporate profits to let them recede. Estimates 15% profit reduction would bring $2 billion loss in Federal revenue, and urges taxation relief of stockholder.

Speaking as toastmaster at a non-partisan dinner symposium given on Dec. 15, at Town Hall in New York in honor of Vice-President-elect Alben W. Barkley, Floyd B. Odlum, President of Atlas Corporation, warned if proposals of Senator O'Mahoney and other Democrats to reduce corporate profits are put into effect, the Federal Treasury would suffer serious loss of revenue. Said Mr. Odlum:

Floyd B. Odlum

Senator O'Mahoney and others have expressed the view that through an excess profits tax, through price reductions and in other ways corporate profits should be reduced. I affirm that both corporate employees and the U. S. Government have too great a stake in corporate profits to let them recede if recession can be avoided. A few facts will make this apparent.

If business is a gamble, then Uncle Sam is the greatest gambler in history, for he rakes in about 50% of everything that corporations have left after expense of operations. Uncle Sam gets part of this by direct corporate profits tax and part as a tax on shareholders when they receive their dividends.

Not only this, but nearly half of all that Uncle Sam gets to live on comes from the same corporations by way of these taxes on profits and dividends.

It is beyond argument that in these prosperous times the government must have a surplus to apply to debt reduction. It is still debatable whether for the current and forthcoming fiscal years the government will or will not need more taxes to accomplish this necessary result. I can tell you for sure, however, that this depends on whether corporate profits stay up. A 15% drop in corporate profits would mean a loss to the government in tax revenues of more than $2 billion and would make a deficit a certainty. The government has adopted a system of taxation that ties the government's financial stability to a high level of corporate profits. If you are going to worry about the future of corporate profits, then also start worrying even more about the finances of your government.

And if corporate profits are going to be reduced by a drop in prices and rise in wages by say 25%, where is the government going to make up the loss of about $4 billion in taxes?

Law of Diminishing Returns

The law of diminishing returns tells me that the government cannot get more out of the higher individual income brackets. That is one law that even Congress can't repeal. Every person's income in excess of say $50,000 could be confiscated and this would not begin to make up the difference.

The platform of the Democratic party seems to tell me that the difference won't be made up by a higher rate on smaller incomes.

That leaves an increased tax on corporations as the probable alternative.

So I say get more taxes from earnings of corporations if greater government revenues are necessary. Also avoid further inflation by all proper means, give employees their full, fair share of the national income, but let's for our own national sake do nothing to interfere with the soundness of health and the business activity of our corporate tax collecting slaves.

I was always taught by my father that more flies can be caught with sugar than with vinegar. If I could show a way to get more government revenues by actually reducing rather than raising taxes, it would be a neat trick you must admit. I think I can do this and without the aid of illusion or mirrors. The magic unfolds itself in steps.

Common Stocks Not Inflated

Common stocks are about the only thing that have not responded proportionately to the decreased value of the dollar, better known as inflation. Common stocks have gone down greatly since 1929 while everything else has gone up greatly. Common stocks are selling so low today in relation to either earnings or dividends that companies cannot afford to issue more stock to get the cash needed for capital requirements. In consequence, corporations are holding back earnings and using the same for plant additions. To the extent that earnings won't suffice, these corporations are to a large extent borrowing money. Why are common stocks selling at such a discount? In my opinion, it is not because of fear of depression but because there is too little left for investors out of corporate earnings after all taxes are taken out to make the purchase of stocks worth while at anything short of a heavy discount. A corporation that is earning 20% on its invested capital before taxes is definitely on a prosperity basis. Yet, if that corporation should pay its taxes and declare out as dividends 40% of what is left, a recipient who is in the highest income brackets would have less than 1% left for himself as return on that portion of the company's capital that he has contributed. You can be sure that such a man will normally seek either a higher return by buying such a company's stock at 40 or 50 cents on the dollar, or a more sure return, or a tax-free income rather than take 1%. Even the man of middle income would have less than 3% left in the corporate example cited.

I now affirm that if stockholders were given a credit against taxes otherwise payable by them of some part of the dividends received so that even at worst a high-income bracket stockholder would end up with more than obtainable by him from a tax-free municipal bond, the following would happen: Stocks would rise. Corporations would sell common stock to finance capital additions. Thus earnings now retained would be free for dividends. The government, while not taking more than 70 or 80% of the dividend in any particular case, would get much more in aggregate dollars than it now gets from taxes on dividends.

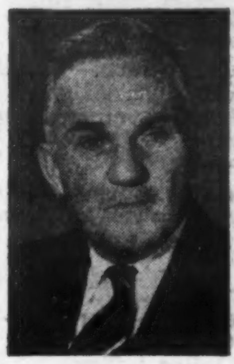
If by such a sugar rather than vinegar process of catching golden flies, corporations could pay out 70% of earnings as they once did rather than less than 40% as they do now, the government would get upwards of $2 billion of additional income taxes. As I originally said, by tax rate reductions with no tax increases, in this way a budget surplus would be much more probable and everybody would be happy. Under these cir-

(Continued on page 69)

From Washington Ahead of the News

By CARLISLE BARGERON

An example of the so-called "Liberal" mind is their continued agitation for doing away with the time-old seniority rule by which members of Congress become chairmen of committees. The only alternative, and the one upon which they insist, would be to name the chairmen upon the basis of ability.



Carlisle Bargeron

It is obvious and should be even to the Liberals, that this would make dictators of the few men who had the power to say what constituted ability and who possessed it. Some 30 or more years ago, the "Liberals" of that day, led by the late George Norris, overthrew the czaristic rule maintained over the House by Speaker Joe Cannon. But even he with all his power could not just pluck men from here and there and place them at the head of committees on the grounds they were the most capable ones for the place.

The plain fact is that the seniority rule makes for ability in the chairmanships. A new member comes to Congress and requests certain committee assignments. Here the leaders can and do exercise a discretion. But once on the committee the member is likely to stay there. He starts at the bottom of the list and at the outset has practically no voice. He spends his earlier years learning the ropes and gradually moves up in rank, provided he is reelected, as vacancies occur. In time he becomes the ranking member when his party is out of power, the chairman when it is in. By this time he has become fully experienced in the subjects with which the committee has to deal.

All committee chairmen are not brilliant by any stretch of the imagination, but even a pig-head has come to be an expert in his particular field by the time he becomes chairman. The fact remains, too, that pig-head or no, his constituents have been enough satisfied with him to return him to Congress time after time. It would seem to be the height of absurdity to exchange this process for one by which a few men could pass upon the whole organization of Congress. It would be interesting to have the "Liberals" name the small group whom they would empower to pass upon the respective abilities of the 531 men and women who make up the Senate and the House.

Of course, it isn't ability they are looking for. It's docility.

Their pet examples of what they call seniority rule abuses are "Muley" Doughton, Chairman of the House Ways and Means Committee; McKellar, Chairman of Senate Appropriations, and Walter George, Chairman of Senate Finance. Rather, they return to those chairmanships. Doughton is in his 80s, but no one can truthfully say that senility has crept into his Administration of the revenue raising committee. George at 70 is in full mental vigor and one of the most highly regarded members of the Senate. The two of them, in fact, serve as Rocks of Gibraltar in these troublous fiscal times. McKellar is subject to brief spells of illness as he approaches 80, but otherwise, his mind is clear. The real trouble with the three gentlemen, in the eyes of the "Liberals," is that they are conservatives. This writer's regret is that they can't hold into their chairmanships until they are 100.

Strangely enough, the "Liberals" never mention in their complaints, the 80 odd year old Sabath, who is to return as Chairman of the House Rules Committee. He is one of them and undoubtedly will be referred to, by them, as that "forward-looking, young progressive" as long as he lives.

Centralizing Stock Exchange Organizations

By FRANCIS ADAMS TRUSLOW*
President, New York Curb Exchange

Curb Exchange executive extols close relationships of New York Stock Exchange, New York Curb Exchange and Association of Stock Exchange Firms. Stresses mutual interests and strong bonds between these three great central organizations in securities marketing.

I was very tempted to take this opportunity to have another go at the quite incredible use which is being made of the power to impose "margin" requirements on exchange securities. However, I told that subject to sit down and wait. First, because this room is not likely to contain anyone who needs to be persuaded that views I have expressed in the past on margins are sound. And, second, because at the moment private and public policy makers don't seem to be able to decide whether we are about to suffer the corrupting effects of inflation or the disrupting effects of deflation. I find it confusing to listen to speeches today. In the span of a few minutes a speaker will warn of inflation and the measures to retard it and of deflation and what must be done to stave it off. In such an atmosphere, it seems impossible to obtain a dispassionate review of the regulations governing the use of exchange securities as collateral for securities loans.

Francis A. Truslow

Another subject eager to speak was the subject of taxation. Emil Schram tackled that subject today and, if you have not done so already, I urge you to study the interesting suggestion he put forward.

These and other topics were discarded because tonight it is more appropriate for me to talk about a recent change in the by-laws of

(Continued on page 69)

*An address by Mr. Truslow at a dinner of the Senior Margin Clerks Division, Association of New York Stock Exchange Firms, New York City, Dec. 14, 1948.

Kilowatt Crisis

By FRANK McLAUGHLIN*
President, Puget Sound Power & Light Company

Commenting on domination of electric supply in Pacific Northwest by Federal projects, utility executives sees in it danger of a "kilowatt crisis," i.e. shortage of power supply. Says shortage already exists and private utilities have been unable to contract for prime power from Bonneville on long-term basis. Holds Federal power policy is confused and has life and death grip on economy of Pacific Northwest. Sees Seattle's situation desperate.

A fellow in my line of business likes to be able to tell his listeners at this season of the year to get "lit up" like a Christmas tree—electrically speaking, that is—and I regret that the opposite is the case today and that I must talk of a "kilowatt crisis." During the past 16 years there have been sweeping and far reaching fundamental changes in the functions of government, in the workings of our economy and in the attitude of our people. In government we have gone from what is known as a constitutional republic to the kind of democracy where various pressure groups trade votes for subsidies and privileges. We have gone from a government of limited powers to one of unlimited powers. Our economy is no longer a free one. Much of it is planned and controlled by government.

Frank McLaughlin

It is apparent that the majority of the people who voted on November 2nd want the government to do more and more things for them. As a Midwestern farmer told a Congressional Committee looking into the matter of farm price supports, "What we want is to individualize our profits and socialize our losses."

What's all this got to do with the power situation that I am supposed to talk about?

Federal Government Power Dominant

Simply this—In these last 16 years the Federal Government has become the dominant and controlling factor in the matter of power supply in the Pacific Northwest. With government in control as to power supply, I guess it is reasonable to expect a "kilowatt crisis." We have had about every other kind of a government crisis.

The long range aspects of this situation are very disturbing, because as things stand today, the destiny of this region is in the hands of the Federal Government. The implications and the consequences of this situation are not fully understood. The dark and menacing clouds of a "Federal planned economy" lie heavy over this region.

Prior to the advent of the Federal Government into the power field in this area, the construction of power generating facilities was the responsibility of the private utilities and the municipal power systems.

With the construction of the Bonneville and Grand Coulee projects, together with main transmission lines and substations and the creation of the Bonneville Power Administration, the situation changed radically. These Federal projects were glamorized in the best New Deal manner and the people were deluged with propaganda as to the amazing benefits that would result from the production of huge quantities of cheap public power.

The PUD's, municipalities and other public agencies were encouraged and prodded to get into the electric business and to distribute Bonneville-Coulee power. There has been a wave of PUD condemnation suits of private utility property and we are now in a second "go-round" with the Snohomish PUD. The Federal Government has declared its intention to develop the best available power sites on the Columbia and tributary rivers.

Plight of Priivate Power Companies

The private power companies thus found themselves caught in a public power avalanche and their operations seriously plagued by many uncertainties. They do not know from one day to the next what the Federal Government and the other public agencies are up to as regards putting them out of business, and I might add that each morning I have to look at the newspaper to see if I still have a job.

Consequently, it became unfeasible and uneconomic for the private utilities to build new generating plants in the face of the vast Federal undertakings and the government's pro-public power marketing policies. Private capital is simply not available to build large power supply facilities in competition with the low cost subsidized power from the huge Federal projects. A further deterrent is the right given public agencies to condemn existing or any future plants which the private utilities may build.

As a practical matter, the day the Federal Government entered the power supply field in the Pacific Northwest in a big way, the private utilities were stopped in their tracks, and the Federal Government took over the major responsibility for the future power supply of the region.

Power Situation Tight

It is true that the power situation is tight today in many areas all over the country. However, in comparison with the rest of the country the power shortage in the Pacific Northwest is particularly acute. As contrasted with other sections of the nation, this region depends on electric power to a greater extent than other fuels. This is so because:

First:—The Pacific Northwest does not have known petroleum reserves and its coal deposits are not presently susceptible of commercial development on a competitive price basis; and

Second: The Pacific Northwest does possess the largest undeveloped power resources in the United States.

Electric consumption is much higher in this area as measured by either per capita or per customer ratios. For example, the peak demand per capita in this region is twice that of the states of California, Nevada and Arizona and is about three times greater than the comparable figure for the country as a whole.

Likewise, the percentage rate of growth of electric requirements have been greater here than elsewhere. For instance, the 1948-49 Winter peak demand of all the private and public utilities in Washington, Oregon and Northern Idaho is estimated to be about 1,000,000 kilowatts more than the wartime peak of 2,207,000 kilowatts, or an increase of about 50%. In the past six years the area peak load has just about doubled. It is estimated that the peak demands for the region will increase 1,100,000 kilowatts or 35% in 1953 over 1948 and 2,400,000 kilowatts or 73% in 1956, as compared with 1948.

In May, 1948, the National Securities Resources Board issued a staff study which pointed out that in the Pacific Northwest a progressively greater shortage in power capacity was indicated throughout the four year period 1948 to 1951. The report showed that under adverse hydro conditions the power shortage in this region could be 400,000 kilowatts in 1948, 500,000 kilowatts in 1949 and 730,000 kilowatts in both 1950 and 1951. The Bonneville Administration has made the shocking statement that in the event of a critical water year, there would be no prime power available for the private utilities in 1951.

Even under the most favorable water and other conditions presently anticipated, the peak load requirements of all the utilities in Washington, Oregon and Northern Idaho will have to be reduced by about 150,000 kilowatts this Winter so that demand will not be greater than the capacity of all the available generation in the Northwest power pool. For the sake of clarification, I would like to state here that the electricity now coming into this State from British Columbia is "off peak" and not prime power. In other words, this B. C. power is not available during the peak hours of from 4:30 to 6:30 p.m.

It is important to analyze objectively the reasons for this power shortage. It is not presently due to poor water conditions. As you know we have had lots of rain and 1948, to date, has been

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*An address by Mr. McLaughlin before the Seattle Rotary Club, Seattle, Wash., Dec. 8, 1948.

LETTER TO THE EDITOR:

A Revision of the SEC Laws Needed

Curtis ter Kuile calls attention to defects and inconsistencies of present Securities and Exchange Acts and points out their shortcomings. Says investment industry is hampered by bureaucratic regulations which destroy underwriting incentives, while offering little help to investors. Attacks competitive bidding and disruption of banker-client relationships in securities marketing, and calls for non-political commission to overhaul SEC laws.

PART I—The SEC

Editor, The Commercial and Financial Chronicle:

The investment business in the United States has been existing under a cloud of political supervision for over 15 years. Its whole structure has been affected, first by a deliberate campaign designed to create suspicion and lack of confidence on the part of the public, then by a more drastic system of regulation than the citizens have permitted to be placed over any other type of enterprise in this country of ours. Originally it was designed to attempt to wrest financial control of corporate enterprise from its hereditary and natural seat and to attempt to concentrate that control in the nation's Capital, where it would be under the power of the political party in office. In view of the maze of bureaus, directives, reports, arbitary regulations and exercise of authority by men not thoroughly qualified for the management of such a vast organization, the time is at hand to bring out in the open the results and cost of such regulation and to advance suggestions to be used as a basis for a complete overhauling of the present procedure in conducting the business of marketing securities. In enumerating the faults of the system in its present costly and wasteful condition, the difficulties of administering the law have been clearly borne in mind. It is sincerely hoped that no one will take arbitrary exception to any statements made in this connection, but will rather lend support to such changes as are found advisable to rectify conditions and reestablish a most necessary business to a sound, healthy, honest and profitable existence.

Curtis ter Kuile

What Is Wall Street?

The aura which is generally called Wall Street is not confined to an area of four or five square blocks in the downtown section of New York City. It actually embraces the financial centers of every prominent city in the United States. It consists of investment bankers, dealers and agents spread over the entire country. Large numbers of its most active members are located in Chicago, Portland, Maine, San Francisco, Cleveland, Buffalo, Tulsa, Boston, Amarillo and Hartford. Control of some of the largest railroads, oil companies and public utilities actually rests in such cities and the owners of these vast enterprises reside in almost every municipality in the United States, to say nothing of those who live in London, Amsterdam, Zurich and other foreign addresses.

When a person enters a department store to buy furniture the store is not compelled to tell him how much it paid for the furniture, what profit it is making or whether any of the officers of the store had any interest in the factory where the furniture was manufactured. It would be exceedingly difficult to operate a department store if the management had to mark on each item not only the selling price but also the cost, because the success of that business depends quite largely on margin of profit, quick price changes, the sale of a leader item at a loss to attract crowds of customers. The business simply could not be run at all if permission to sell the merchandise in the first place had to be obtained from some regulatory bureau located possibly 3,000 mies from the store. Nevertheless a tremendous volume of business is done by department stores. Most people seem quite pleased with their purchases and few who do their buying from reputable concerns consider that they have been imposed upon or have demanded the creation of a government bureau to protect them.

The above example also applies among others to the automobile business, the sale of radios, cheese, insurance, clothing, furs, meat and jewelry. However, it does not apply to the sale of securities. In respect to the securities business the public has been patiently and carefully schooled for the past 15 years to believe that it is absolutely necessary for the government to supervise all purchases, sales and the underwriting and issue of new securities. Such regulation calls for a bureau whose upkeep costs investors a tax of one cent per $500 on the sale of securities on the various stock exchanges. This amounted to $400,024 collected in 1947. The SEC budget for the current fiscal year calls for an appropriation of $6,290,000 and registration fees, which are paid by the issuer, are estimated at $1,000,000. Therefore taxpayers will be called on to put up about $5,290,000 this year for securities regulation.

SEC Renounces Responsibility

There is one feature of SEC procedure which certainly seems to warrant consideration for revision. Everybody knows that an issuer of securities cannot get a release from the SEC until it has taken its own good time to examine the proposal, has raised all the objections it pleases and has sometimes caused aggravating delays to really high-grade corporations with long dividend records. However, the issuer is forced to print in a prominent place on the face of the prospectus the following: "These securities have not been approved or disapproved by the Securities Exchange Commission, nor has the Commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense." Evidently no further comment is called for on this matter except that there is always the possibility that the above clause is forced on the bankers in order to prevent suits against the SEC by someone who has a loss in a new security issue. In other words, let the customer sue the banker, issuer, officer or director, but not the SEC. Moreover it would seem that an effort has been made to convince the public that if they lose money on an investment their own government certainly had nothing to do with that loss.

Anyone familiar with the investment business can furnish numerous examples of new securities which have sold down very sharply since being released by the SEC. Cases may be cited where stocks have sold down substantially from their issue prices in a fairly short space of time. Some bonds have also lost at least half their issue price in a few months. Yet each of these issues was filed, studied at least 20 days by the SEC, several hearings were held and eventually the security was released. What all this amounts to is the plain implication that securities of reputable corporations, issued through conservative banking concerns, usually would provide an attractive medium for investment even if the SEC had never been consulted in the matter. In fact that is exactly what takes place in connection with the numerous "private placements" which have recently become so popular with insurance companies.

Supervision of Open Markets

Supervision of security trading on the open markets is another subject that warrants consideration as it also has been rather unsatisfactory at times. In many cases obvious manipulation of stocks against the public interest has been allowed to take place for considerable periods of time until some alert newspaper called attention to the matter. Even then it has at times been difficult to get any action on the part of the SEC. Professional Wall Street men have often noted evident signs of "tape painting" and "jiggles" which have not been investigated until long after the damage had been done, if they were investigated at all. In this connection, if it is suggested that the Stock Exchange in question might have stepped in, the evident answer is that so much prerogative in such matters has been assumed by the SEC that Exchange officials possibly are reluctant to take action.

It is very doubtful if any law exists which is constitutional that prohibits a business man in our country from attempting to sell something that he legally possesses or from attempting to find a buyer for something he has either contracted to purchase or has spent money on with a view to purchasing. Nevertheless the SEC for years has been issuing directives and regulations designed to prevent just that sort of thing. An investment banker is approached by a client who wishes to do some financing. The banker listens to the proposition and if it sounds reasonable he requests financial reports. These reports are turned over to analysts and statisticians for a preliminary check. Acting on their advice he then confers again with the client and they both exchange views on the possible financing. By that time considerable expense has been incurred; partners' and analysts' time, clerical, telephone and travel expense and possibly engineering and legal advice. Assuming the proposition appears interesting and feasible, the next step would logically be to make a preliminary attempt to ascertain whether there would be a market for the securities in question. For some years now the SEC has maintained that such a step was illegal. No letters of inquiry or other means of communication over public common carriers were permitted under the regulations. Consequently to comply with the letter of the SEC regulations it

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Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Airlines—Analysis of outlook with comments on 15 stocks—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available are analyses of **Admiral Corp., Burlington Mills Corp., Chesapeake & Ohio Railway, General Shoe Corp., Gulf Mobile & Ohio Railroad, Motorola, Robertshaw-Fulton Controls Co.** and **Zenith Radio Corp.,** and a bulletin on current developments in **Railroads.**

Financial Survey—Discussion of outlook with data on several interesting situations—Peter P. McDermott & Co., 44 Wall Street, New York 5, N. Y.

Is Television Here to Stay?—Study—Amott, Baker & Co., 150 Broadway, New York 7, N. Y.

Paper Manufacturer—Data on interesting 1st mortgage industrial bond—George Birkins Co., 40 Exchange Place, New York 5, N. Y.

Television — Circular — Television Shares Management Co., 135 South La Salle Street, Chicago 3, Ill.

Television Industry—Review—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

United States Government Securities — Brochure — Mellon National Bank and Trust Co., Pittsburgh, Pa.

Warm Up Cold Figures — Brochure on graphic representation in annual reports—The Wexton Co., 425 West 57th Street, New York 19, N. Y.

Western Canada Oil Industry—Data—Charles King & Co., 61 Broadway, New York 6, N. Y.

* * *

Aetna Standard Engineering — Memorandum—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

American Airlines, Inc.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Bulolo Gold Dredging—Analysis—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are analyses of **Gulf, Mobile & Ohio, The Ohio Oil Co.,** a bulletin of **Public Utility Common Stock Suggestions,** and leaflets on **Consolidated Mining & Smelting, Gulf States Utilities, Niagara Hudson Power** and **Phillips Petroleum, Socony-Vacuum.**

Chicago Great Western Railway—Report—Richard J. Buck & Co., 39 Broadway, New York 6, N. Y.

Commonwealth Gas Corporation—Southwest Gas Producing Co.—Review and reappraisal—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Continental Casualty Co.—Bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Eire—Study—Chemical Bank & Trust Co., 165 Broadway, New York 15, N. Y.

Hanford Works — Analysis — Seattle-First National Bank, Second Avenue and Columbia Street, Seattle 4, Wash.

R. Hoe & Co., Inc.—Card memorandum—Adams & Co., 105 W. Adams Street, Chicago, Ill.

Houston Oil Field Material Co.—Circular—Dallas Rupe & Son, Kirby Building, Dallas 1, Tex.

Also available is a circular on **Southwestern Electric Service Co.**

Interstate Bakeries Corp.—Card memorandum—Floyd A. Allen & Co., 650 South Grand Avenue, Los Angeles 14, Calif.

Interstate Bakeries Corp.—Circular—H. M. Byllesby & Co., 135 South La Salle Street, Chicago 3, Ill.

Lone Star Steel Co.—Survey—Lynch, Allen & Co., First National Bank Building, Dallas 1, Tex.

Marchant Calculating Machine Co.—Memorandum—Kiser, Cohn & Shumaker Inc., Circle Tower, Indianapolis 4, Ind.

Also available is a memorandum on **Black, Sivalls & Bryson** and a leaflet of suggestions for Indiana investors.

Midland Steel Products Co.—Circular—Harris, Upham & Co., 14 Wall Street, New York 5, N. Y.

Also available is a circular on **National Malleable & Steel Castings Co.**

Minneapolis Moline Power Implement Co.—Analysis—Bache & Co., 36 Wall Street, New York 5, N. Y.

Northern States Power Company, Minn.—Special write-up—A. C. Allyn and Company, Inc., 100 W. Monroe Street, Chicago 3, Illinois.

Pacific Intermountain Express Co.—Circular—Stone & Youngberg, Russ Building, San Francisco 4, Calif.

Publicker Industries—Circular—Carl M. Loeb, Rhoades & Co., 61 Broadway, New York 6, N. Y.

Schenley Industries, Inc.—Analysis — Abraham & Co., 120 Broadway, New York 5, N. Y.

Southwest Airways Co.—Circular—Marache, Sims & Co., 458 South Spring Street, Los Angeles 13, Calif.

Strawbridge & Clothier—Memorandum—H. M. Byllesby & Co., Stock Exchange Building, Philadelphia 2, Pa.

Also available are memoranda on **John B. Stetson** and **Warner Company.**

Texas Company—Analysis—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Time, Incorporated—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

United Kingdom — Analysis — Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Utah Power & Light—Write for data attention of R. H. Burton—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

Winters & Crampton Corp.—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available is an analysis of **Miles Shoes, Inc.**

Television Boom Is On!

By JEROME J. GUNTHER

Pointing out billions of dollars are being injected into economic bloodstream of America by television, Mr. Gunther says it is fast becoming the greatest of all advertising mediums and has been given green light by national advertisers. Cites opinion of broadcasters, radio manufacturers and film producers of television's future, and sees opportunities for profitable investment in selected television stocks.

The Television Industry is taking on the outward appearance of a gravy train. To the list of old established manufacturers of radio sets that possess the scientific, manufacturing, merchandising and over-all "know how" are being added new organizations at a rate that brings to mind the early days of the radio industry.

Jerome J. Gunther

Progressive newspapers, radio station and motion picture executives realizing that television is the greatest medium of mass communication the world has ever known are acquiring a stake in television stations and telecasting.

Practically all of the top-line radio broadcasting stations have or are acquiring television licenses. Nor is the "fourth estate" missing among the climbers. At the present time there are 11 television stations on the air which are owned by great newspapers, 21 more have construction permits and an additional 73 newspapers have applications pending.

Telecasting is now being done by 38 stations in 23 major cities, and 85 more stations are in process of construction. When they are completed, television programs will be within the reach of over half of all the people of this country.

All of the 400 television channels allocated by the F.C.C. have been spoken for, and approximately 60 should be operating by the year-end 1948. Seeing the handwriting on the wall, Paramount, Twentieth Century Fox, R.K.O., Warner Bros., and other leading motion picture producers are clambering on the television gravy train. This new art will become a substantial consumer of films for its programs.

Frank E. Mullen, Executive Vice-President of National Broadcasting Company (N.B.C.) states: "Film is and always will be an integral part of television programing." That this is recognized by the film industry is evident from the fact that moving picture producing companies have been quick to make tieups with television interests.

Not only will television be able to utilize reissues of old films, but it will also need new films especially prepared for it. The audience will want to see "Allen's Alley," "Jack Benny's automobile and "Fibber McGee's" closet.

Film is the best and most practical way of television programing. Hollywood's tricks of the trade—process shots, slow motion, accelerated action, miniatures — are either difficult or impossible to do in live telecasts, whereas they can be easily accomplished on film and add tremendous production value to any television program.

Major producers of motion pictures are earnestly wooing television to wed "Video" and the "Movies." Theatre television is their objective, to bring television into the theatre. Paramount alone controls some 1,800 theatres around the nation. David Sarnoff, head of R.C.A. estimates that 5,000 theatres will be showing instantaneous television programs (sports events, conventions, and news events) within 5 years.

The future of television as a medium of entertainment, education and information is as expansive as the human mind can comprehend. Held back by the war "television today is zooming like a V-2 rocket," states David Sarnoff, the Chairman of the Board of R.C.A.

The Greatest of All Advertising Mediums

Network video operations has lifted the value of television as an advertising medium from an experimental stage into a powerful merchandising and sales force due to its broad coverage and ability to visually display and demonstrate products and their potentialities. Surveys prove that the public prefers viewing a television program to listening to a top radio program. The sales value of television, which wraps up sight and sound and action in a single package, is unsurpassed.

This combined advertising appeal produces an impact on viewers unparalleled in any other medium—not excepting radio, the success of which in advertising history requires no emphasis. By all accounts, television, in its now limited sphere, "is beating the ears off radio" in the competition for audience attention, within the area where comparison is possible.

"Technically, artistically and in every way that counts for the consumer," states "Fortune Magazine," "video is comparably more advanced than was radio at a corresponding commercial age." For entertainment, television will mark a new high in quality, audience acceptability, and will greatly increase the number of stations that can operate in a single community.

As the greatest known means of mass communication, it opens up a new world of interesting possibilities for advertising to supplement current "wash board weepers" and the "gun shot" and "belly laughs" of radio entertainment.

National Advertisers Give Video The Green Light

Television, like radio will depend on advertising for the expansion of its facilities and programs. As advertising has built the wide range of radio broadcasting schedule, so advertising will make possible an increasing wealth of fine programs on television. Today, many of our nation's large advertisers are sponsoring television programs. In March of 1947 — 25 advertisers were sponsoring television programs. Today there are about 500 according to published figures.

Among the many national advertisers who have signed long-term contracts is the Chevrolet Division of General Motors, which in addition to sponsoring the Yankee football games, present a daily news program. An outstanding cigarette manufacturer is sponsoring televised weekly news reels at a fee estimated to approach $500,000 per annum, paid to a motion picture film organization. Proctor & Gamble Company have recently allotted $2 million to its 1949 television budget. Other nationally known organizations using television include General Electric, General Foods, American Tobacco Company, the Ford Company, Kaiser-Frazer, Gillette Safety Razor, Botany Mills, Philco Corporation, Bulova Watch Company, and United States Rubber Company. This is the type of sponsorship — that through its support — guarantees the success of television—"The greatest of all advertising mediums."

Film a "Must" in Television

Television cannot give the best in entertainment until it is able to supply its sponsors with national coverage. And national coverage in television cannot presently be achieved as in radio, by transmission over wires. Because of the technical limitations of television it can only be done through the use of film. Prints from the master negative must be sent to the key stations of the television network. Mr. de Rochemont, producer of Radio's March of Time, says, "The demand for film in television will soon be something that Hollywood in their most optimistic period never dreamed of."

From now on, the success of television will rest to a great extent—on showmanship. Television, up to now, has been concerned mostly with sports, personal interviews, musical presentations, and news features. These are the least expensive forms of entertainment.

Tomorrow's Television Programs

The real television programs, will be produced by experienced motion-picture people, men skilled in the art of original and intelligent camera work, men able to present exciting pictorial composition, pace and tempo, with a feeling for rhythm. These are the all important angles of the "know-how" that go to make a picture an outstanding success. This challenge can only be met by the systematizing of the procedures of television production, so that the successive camera shots fall into place with the assembly line precision.

To reach the pinnacle of success which its architects have dreamed for it, television must now concern itself with real entertainment. The Philco Corporation has taken the first step of any magnitude in this direction by inaugurating a series of stage presentations from Broadway successes, the cost of which is twice

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

One of the first official indications of an individual bank's earnings for this year was given Dec. 7 at the annual stockholders' meeting of the Bank of the Manhattan Company.

J. Sewart Baker, Chairman of the Board in his report to stockholders estimated net operating earnings of the Bank for 1948 at $5,300,000 equal to $2.65 a share compared with $4,118,000 or $2.05 a share earned in 1947.

While total expenses, according to Mr. Baker, are expected to increase to $17,500,000 from $16,157,000 in 1947, most of the increase, approximately $1,000,000, will be due to a larger tax liability. Other expenses including salaries and wages have evidently been well controlled and should show only minor changes in year to year comparisons.

At the same time it is estimated that increased income derived from higher interest rates and a larger volume of outstanding loans during the year, should more than offset the rise in expenses. As a result some of the increase in operating revenues will be carried through to net earnings.

Although the same factors that have been influential in determining the operating results and estimated earnings of the Bank of the Manhattan Company, have also been important in determining the earnings of other banks, it is expected that year to year comparisons for some of the other institutions will not show exactly comparable results.

One of the most important elements in this connection will be the accounting policies adopted by the various banks. Under a ruling of Dec. 8, 1947 by the Commissioner of Internal Revenue, commercial banks have been permitted to build up certain amounts of tax-free revenues for bad debt losses on loans. While a number of banks in years past have followed a policy of providing for such losses by setting up reserves from taxable income, the effect of the recent ruling has been to considerably increase the amounts charged against earnings for the purpose of building up these valuation reserves. This action by the banks which have adopted the reserve policy has had the effect of reducing reported net earnings.

As a result, year-end reports of some banks will reflect these charges against earnings to accumulate valuation reserves. For this reason the figures for 1948 may not be exactly comparable with previous periods.

Following the annual meeting of stockholders, the Board of Directors of the Bank of the Manhattan Company declared a 10 cent year-end dividend and the regular quarterly dividend of 30 cents both payable Jan. 3, 1949. Mr. Baker, Chairman, also stated that the directors looked forward to making this year-end dividend a regular payment until conditions warranted a change.

This is one of the few changes that has been made in the dividend policies of New York City banks over the past year. Even though operating earnings in most cases have been maintained at a relatively high level, the need to build up capital funds has necessitated the retention of a considerable portion of net income. As a result only about 60% of earnings have been distributed as dividends.

This practice of building capital through retained earnings has been nationwide, with the result that few of the major banks throughout the country have increased their payments in the past year. Some of the exceptions include: Pennsylvania Company for Banking & Trusts, Bank of America National Trust & Savings and Security First of Los Angeles.

With this background, it is not surprising that a number of banks have seen fit to increase the return to stockholders through the payment of stock dividends. By such action the bank is able to retain earnings and build-up capital. At the same time some consideration is given to the stockholder by increasing the number of shares he holds and maintaining the same dividend on the larger number of shares outstanding.

The most recent action of this kind was that taken by the Manufacturers Trust Company of New York. Subject to the approval of stockholders, the directors have declared a dividend of one share of new stock for each 11 shares held.

Some of the other leading banking institutions have recently announced the payment of stock dividends. Two of the more prominent ones are First National Bank of Chicago and the Cleveland Trust.

This seems to be a logical development under current conditions and it is likely that similar action will be taken by other banks.

Indonesia's Recovery

By HERMAN J. FRIEDERICY

Head of the Political Department of Overseas Territories

Mr. Friedericy declares Indonesia's economy has great recuperative powers; its agricultural and mineral raw materials' export potential is great; and with reasonable political stability, balance of payments can be achieved. States Communists are no longer menace, but other Republican groups continue unreasonably to block settlement.

Most questions about Indonesia's economic future have political answers, so naturally such answers are liberally qualified with "ifs" and "maybe's." When U. S. importers ask the outlook for exports of Indies tin, rubber and copra, or when U. S. owners of property there wonder how they will operate under the coming independent government, the reply is always: "It depends upon the political situation."

Dr. H. J. Friedericy

In a nutshell, the situation is this: Indonesia's economy has unusual recuperative powers, its exports of agricultural and mineral raw materials are in great demand and, with reasonable political stability, the country should be able to balance its payments.

So far the political climate, often more crucial to good crops than the weather, has slowed recovery. Orderly liquidation of 350 years of Dutch rule has proved to be a difficult human problem. Lack of a final, working agreement between Holland and the Republican part of Indonesia has split the Archipelago and its economy. And undoubtedly this Dutch-Republican dispute has absorbed energies and resources which would otherwise have turned out more rubber, palm oil and capoc.

But despite political headaches, there is reason for cautious satisfaction with Indonesia's economic comeback, especially in the last 15 months. Since the summer of 1947 exports have risen steadily and domestic prices have dropped by 75%.

Dutch Police Action

This improvement followed a Dutch police action to restore public safety in the Republic. Prior to the police action reconstruction had progressed only in the tin islands of Banka and Billiton, in the autonomous state of East Indonesia (Celebes, the Moluccas, Bali, Timor and other islands) and in Borneo. Under temporary Netherlands authority these areas had the benefit of civil peace and Dutch credits. But the major parts of Java and Sumatra, then in the Republic, were at an economic standstill.

After the police action, in July, 1947, 75% of Java came within Dutch jurisdiction, including 75% of its rubber production, 90% of tea, 85% of cinchona (quinine), 65% of coffee, 50% of sugar mills and much of the rice, tapioca, sisal, capoc and tobacco. On Sumatra 20% of the area was brought under Dutch authority, with the major oil fields, as well as the important rubber, oil palm and tobacco plantations of East Sumatra.

When the fruits of reconstruction in these areas were joined with the output of Borneo, East Indonesia and the tin islands, exports began a still continuing upward trend. During the first half of 1948 exports from the non-Republican Federal Territories exceeded those for the entire year 1947. At $17 million in January, exports for September were $45.3 million and are expected to top $350 million for the year. Last year exports were $130 million and in 1939 from all Indonesia they were $420 million.

Present export values of course show only a rapid rate of recovery, but because of currency inflation, they do not reflect the degree of progress. Export volumes are still below a prewar, except for tin and bauxite which this year will exceed 1939 amounts.

For other products figures are complete only for non-Republican Federal areas, yet comparisons with prewar amounts from all Indonesia are of some interest. It should be kept in mind that before the war the territory now in the Republic accounted for about 20% of Indonesia's exports. On this basis, 1948's rubber shipments (including some Republican rubber) may go to 88% of 1938; for petroleum 62%; for copra 43%; for palm oil 25%; for cinchona 64%, while for other products the percentage is generally much lower.

The Dutch Investment

Until recently, Indonesia's reconstruction was financed largely by a Dutch investment in the Archipelago's future. Roughly, $350 million in guilder credits have been advanced, an amount far greater than Holland can earn back from the Indies for many years to come.

Today, Marshall Plan aid is speeding recovery. In the last three quarters of 1948, $55 million have been allotted to Indonesia, $40 million in grants and $15 million in loans. Allotments for this year are being spent largely on consumer goods, but next year's funds will go chiefly into domestic industry and the processing of raw materials for export.

At the present rate of rebuilding, Indonesia's economy could be back on its feet in a few years. Even though knotty problems loom ahead, they can be solved if in gaining independence Indonesia does not lose political stability.

As a sovereign state Indonesia will have to contend with a shortage of trained technicians among its citizens, with a population surplus on crowded Java and with a lack of capital for industrialization and further expansion of food output.

All these problems together spell out a need for cooperation with the West, with Holland, Britain and the U. S. A. Fortunately both Federal and Republican leaders want such cooperation, but so far it has been possible only in the Federal Territories.

For three years the Dutch and Republic have tried to reach a settlement. The Dutch have irrevocably promised full independence. The Republic has promised law and order, recognition of foreign property rights and support of a federal United States of Indonesia. On these broad aims there has long been agreement, but on carrying them out there has been equally long disagreement.

The reason why Dutch-Republican agreements have not yet worked is simple. Responsible Republican leaders, like Premier Hatta and former Premier Sjahrir, sincerely want cooperation with the Dutch. But other leaders, especially the Communists, have had other axes to grind. These opposition elements have occasionally pretended to go along with moderates like Hatta, but in practice they have prevented the return of public safety in the Republic and have refused to restore foreign property to its owners.

In mid-summer, 1947, Republican Premier Sjarifuddin accepted Dutch terms, but the next day renounced them. Months later, on Aug. 31, 1948, Sjarifuddin's motives became clear when he revealed membership in the Communist party since 1935.

Communists Minor Menace Now

At present the Communists are only a minor menace. Sacrificing themselves for Moscow's global schemes, they launched an ill-timed revolt in September. Today their leaders are dead, captured or fugitives. Of course, the remaining Communists will in time reorganize and try other tactics. But in the near future they will probably have little success, unless Moscow gains control of the Far Eastern mainland.

Though the Communists brought on their own destruction, other groups in the Republic continue to block any settlement. In recent weeks the Netherlands Government has made a supreme effort to reach agreement, but a number of Republican political and army leaders have introduced new demands which go far beyond earlier proposals. These demands in effect ask that the Republic be a sovereign state within a sovereign United States of Indonesia.

Stalemate to Continue

Neither the Dutch nor the Federal Territories are likely to accept the new Republican terms, so the stalemate seems destined to continue. One great ray of hope remains, however. The Federal Territories and the Dutch have agreed on formation of an all-Indonesian Interim Federal Government, probably before Jan. 1, 1949.

If, in this interim regime, the Federal Territories continue to prove that cooperation with the Dutch on a non-colonial basis is possible, then the Republican parties may lose rather than gain internal support if they follow an extreme revolutionary line.

It is Holland's hope that patience and deeds will dissolve the phantom of exploitative Dutch imperialism with which alternately Right- and Left-wing Republican parties have aroused their people. Should this come to pass, a new pattern of East-West relations may be ushered in. In any case Indonesia's independence is guaranteed, but in a Dutch-Indonesian partnership of sovereign equals the East will gain from Western capital and know-how while the West will find opportunities for productive use of its people's skills and energies.

Clare M. Torrey Will Open Offices Shortly

It is understood that Clare M. Torrey will shortly open offices in New York City to engage in the securities business. Mr. Torrey was formerly a partner in Van Alstyne, Noel & Co.

To Be Felder & Co.

The firm name of Felder & Jaffe, 60 Beaver Street, New York City, members of the New York Stock Exchange, will be changed to Felder & Co. effective Jan. 1.

Are Profits Under Competition Ever Too High?

By CLARENCE FRANCIS*

Chairman, General Foods Corporation

Mr. Francis, in pointing out profits must be sufficiently large to attract investment to provide part of capital for needs of growing business and to supply inventories to meet customers' wants, asserts aggregate profits under competitive conditions are never too high, either morally, socially or economically. Says inflated prices and profits cannot be remedied until some semblance of peace and stability descends upon earth.

A profit is what is left after conducting business during a specific period. That profit has at least three major jobs to do. None of them will get done without a profit, and unless they get done this whole society will lose its vitality at the very period when that vitality is the hope of the world.

Clarence Francis

First, profit must pay a sufficiently attractive return to the man who has saved his money to turn that money into risk capital. General Foods and thousands of other American companies are publicly owned. They are ventures in economic democracy. Some 68,000 stockholders have invested their savings in General Foods. We want to conduct our business in such a fashion as to attract many, many more to participate with us in this productive enterprise.

To make this kind of economic democracy work, we've got to furnish the same incentives as we must furnish to attract high calibre employees. We've got to make it worthwhile. The first of the three functions of profit as we see it is to make investment, not only in General Foods, but in American productive enterprise worthwhile.

Second, out of that residual called profit must come enough capital to provide for part of the needs of a growing business. This is a growing country. Every day the people of this country and of the whole world are discovering new needs and new wants. You will recall the list of new plants and plant additions which just our own company has made in the last four years. Each of these plants has provided greater volumes to satisfy the wants of more people. Each of these plants has provided increased employment. Each of these plants has paid taxes to its community and to the nation. A large proportion of these plants have been built out of that share of the residual known as profit which has been retained in our business. We think that's an important function of profit.

The third positive function of profit is to keep General Foods in a good working capital position to enable it to have on hand the inventories it needs to meet its customers' wants and to handle the increased receivables that come from a growing business. We think that's an important function of profit.

A high level of prices for raw materials, plant, labor, etc., means different criteria of adequate dollar profits from low levels of prices.

So far these functions have been listed on the positive side. I would like to say that an inadequate profit can destroy the hopes that the world places in our productive capacity, can destroy the economic democracy of a publicly owned economic system, and can cast the blight over the prospects of your neighbor and mine for steady employment and for a sound future.

We think that the criteria just mentioned are what we would suggest to your committee as a fair approach for determining a proper and equitable level of profit. There is no formula we know of which can justifiably express adequacy of profit in static percentage figures.

Are Profits Ever Too High?

In your second question, you ask if we would agree that profits are ever too high. If so, where or when should anything be done about such profits?

All profits are probably never too high—whatever too high means. Too high in reference to what? Too high morally? Socially? Economically?

Certainly, profits cannot be arithmetically too high if they are made competitively in fair dealings in a competitive economy. Once again we use the term residual. Profits are what in second grade arithmetic we call the remainder.

If we were to sell for one dollar what cost us 99 cents to produce, including taxes, we would make one cent or one per cent on sales. But if on that item we could get our cost down to 98 cents, a mere one per cent reduction, we would have doubled our profits. I leave the question to you, gentlemen, would we, under those circumstances, be profiteering because we had doubled or profits? So much for the arithmetic of profits.

Economically, profits can be too high in periods of scarcity. The situation can only be solved fundamentally by increased production.

However, I hardly have the courage to generalize even about the profits in the food processing industry, much less for all industry. Year after year, in our own relatively stable business our "profit mix" varies far more than our "product mix." One year cereals may be our best ball carrier doing especially well in profits. In another, coffee, in another year desserts, in another, our chocolate and cocoa products, and so on. In every year throughout my experience in the food business, we have have very meager or no profits in some one or more fairly important lines. This is also true in this profitable year of 1948.

Are profits ever too high socially? They perhaps might be if the investor was unduly rewarded at the expense of other classes in the community, or if profit contributed unduly to the cost of living. However, I challenge you to find any evidence that the owners of General Foods have received anywhere near the fruits of their investments that have gone to employees, government, etc. I have also tried to lay the ghost that we set prices on the basis of expected profits.

Because of scarcities there has been an almost universal sellers

(Continued on page 71)

*Abstract from the testimony of Mr. Francis before the Joint Congressional Committee on the Economic Report, Washington, D. C., Dec. 10, 1948.

Mutual Funds

By HENRY HUNT

Training New Salesmen

The **Cohu Corporation,** newly formed affiliate of **Cohu & Co.,** members of the N. Y. Stock Exchange, to retail Mutual Fund shares gives a thorough training course to its salesmen. Some idea of its comprehensiveness is given by the following topics which it covers.

(1) Basic salesmanship in the investment field.
(2) The growth of investment trusts and mutual funds.
(3) The balance sheet and the income account.
(4) Types of securities and the over-the-counter market.
(5) Sources of financial information.
(6) Elementary and practical economics.
(7) Investment management policies of institutions.
(8) The investor's balancing of risks between cash, life insurance bonds and stocks.
(9) The money market and capital markets.
(10) Mutual funds for institutions, the wealthy and the average investor.

Very few of "Cohu's" new salesmen have had any experience with mutual funds before and many have never sold any securities before. In view of the difficulty in obtaining experienced salesmen to work on a straight commission basis with no drawing or expense account, the Cohu Corporation is doing the sensible thing, building from the bottom up. It is our understanding that at the outset the "Cohu" salesmen will limit their efforts to the sales of but three or four different funds. We wish them the best of success and hope that similar training schools will be organized by other member firms that have hitherto overlooked the advantages of mutual funds.

Outlook for Oil Stocks

"During the past six months, a tremendous change has taken place in the statistical position of the oil industry. The production of domestic crude has moderately exceeded expectations, and to this has been added a rapid increase in foreign production. Construction of pipe lines has aided in easing the transportation difficulties, and a shortage of tankers has been replaced by an ample supply. Demand has been generally holding up well although somewhat below expectations, but consumption of heavy fuel oil has diminished to the extent that this product is now in surplus supply. Since the end of April, total inventories of crude and refined products have risen sharply. The price situation has become confused with some factors in the industry attempting to raise the price of crude, but weakness has developed in certain product prices. In the securities market, oil company equities reached their highs about the middle of May and since then have declined substantially.

"The market is paying little attention to current earnings. In the immediate prewar period, the highest capitalization rate of earnings was in 1937 which was a period of boom for the industry, and this rate was less than 50% of present rates. The rate of capitalization of 6% shown in 1939 represents a more fair capitalization rate based on what might be called an average earnings experience. Using this 6% rate as a norm, the market may be said to be discounting a drop in current earnings in the neighborhood of 70% which would bring per share earnings to $3.12!

"Furthermore, although the present price of the composite oil stock seems high relative to past market experience, this is no accurate measure as the book value has substantially increased over this period. Thus in 1939 which was a year of poor market experience for the oils, the book value of the composite oil stock was $31.74 at the year end as compared with its average market price of $30.91. At the end of 1947, the book value of the composite oil stock was $47.12 per share and at the end of 1948 the book value after adjustment for retained earnings and stock dividends should be $52.70, or the same approximate relationship to market price that prevailed during the rather depressed year 1939. If effect were given to the higher price level now prevailing, the present book value would be further enhanced.

"The market is indeed taking a dismal view of future development in the industry. Even giving effect to the probable disappearance of abnormal profit margins and the condition of critical shortage, demand will undoubtedly be higher in 1949, and the basic statistical position will be one of relative tightness and no oversupply. The recent large purchase of crude reserves by Tidewater is an indication that the industry is not anticipating any over-supply of crude over the foreseeable future. In the light of these conditions common equities of leading oil companies appear to possess attractive investment characteristics at present market levels."—Excerpts from **Calvin Bullock's** "Perspective."

Sales of Investors Mutual Hit New High

Investors Mutual's sales slogan "You gotta make calls to get results" is bearing fruit, and how! Gross sales of Investors Mutual for the week ended December 4 exceeded $1,700,000, a new all time high.

It is also interesting to note that during the same week combined sales of **Investors Syndicate of America Inc.** and its Canadian subsidiaries approximated $11,500,000. These latter sales call for 10-year payments in the above amount on fixed income bearing certificates. Congratulations, Mr. Crabb!

The Keystone Plan

"(1) **Establishing The Plan.** Keystone has developed four standard Planned Investment Programs designed to fit a variety of common objectives. It also provides simple methods of tailor-making a program to fit exactly any individual need, or of adjusting an existing plan. It supplies several Formula Timing Plans which enable investors to decide in advance what action shall be taken to bring in account into line with changing market cycles.

"(2) **The Means.** Keystone operates 10 investment funds, each of which corresponds to one of 10 classes of securities—four bond funds, two preferred stock funds, and four common stock funds. The investor who wishes to invest in any of these classes simply purchases participation in the appropriate funds.

"(3) **Selecting Securities.** Keystone's research organization—one of the largest devoted to investment work in the country—selects, from all listed securities available and active unlisted issues, those that its analyses show to be most characteristic of each class, as a group.

"(4) **Supervision.** This same research organization studies constantly both the issues held and those that may be eligible to replace them, making changes whenever studies appear to make a change advisable.

"(5) **Physical Management.** All cash and securities in the Keystone Funds—which are directly owned by certificate holders—are held for their benefit by the trust department of a large bank. The bank collects income and pays it to holders at periodic intervals exercises rights and proxies and carries out all the other functions of a custodian bank.

"As of December 1, 1948, more than 50,000 investors were using Keystone Funds in the management of over $165,000,000. Of this some $15,000,000 is invested for trustees, estates, insurance companies and other fiduciary investors. The rest is divided among individual investors in amounts ranging from a few hundred to more than half a million dollars."—Quoted from "Keynotes," published by the **Keystone Company of Boston.**

Merrill Lynch Will Admit Three Partners

Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange, announced yesterday that three new general partners will be admitted to the firm on Jan. 1. They are Francis C. Hunter, manager of the firm's Washington office, 815 15th Street, N. W.; Edwin O. Cartwright, manager of the Dallas office, First National Building, and Jack Wiggin, Jr., manager in Houston, Texas, office, Gulf Building.


Francis C. Hunter


E. O. Cartwright


Jack Wiggin, Jr.

Mr. Hunter started his brokerage career in his home town of Savannah, Ga., in 1928. He came with John F. Clark & Co. in 1931 as assistant manager of the Savannah office and transferred to E. A. Pierce & Co. when that firm absorbed John F. Clark & Co. Before becoming Washington manager in 1947, Mr. Hunter was manager of the Oklahoma City office of Merrill Lynch.

Mr. Cartwright, a native of Jonesboro, Ark., left the Dallas "Morning News" in 1921 to enter the brokerage business. He joined Fenner & Beane in 1929 as manager of the Dallas office. Earl H. Hulsey, Merrill Lynch resident partner in Dallas, will become a limited partner on Jan. 1, and will be replaced by Mr. Cartwright as resident partner.

Mr. Wiggin joined E. A. Pierce & Co. as a customer's man in 1927 and was promoted to manager of the Houston office in 1932, coming over to Merrill Lynch in 1940 when the present firm was organized.

In addition to the three new partners and the change in status of Mr. Hulsey, Edward C. Bendere of Philadelphia will resign as a general and become a limited partner and George B. Hyslop will resign.

N. Matthew Nilssen J. A. Hogle Partner

N. Matthew Nilssen will become a partner in J. A. Hogle & Co., Salt Lake City, members of the New York Stock Exchange, on Jan. 1. Mr. Nilssen has been a partner in Laird & Company.

V-P. of Jack Bass Co.

NASHVILLE, TENN. — H. F. Smith has been appointed a Vice-President of Jack M. Bass & Co., Inc., 311 Fourth Avenue, North.

Chubb & Son Admit

Chubb & Son, New York insurance brokers, on Jan. 1 will admit William A. Bonner, Albert C. Wall, and Robert E. Wallace to the firm. Thomas J. Goddard who has been a partner in the firm for 27 years will retire.

Mr. Bonner, with Chubb & Son since 1916, is a Vice-President of the Federal Insurance Co., as is Mr. Wall.

Herbert W. Klages, Manager of Chubb & Son's Chicago office, has been elected a Vice-President of the Federal Insurance Co.

BUY U. S. SAVINGS BONDS

Outlook for Real Estate and Construction

By ROY WENZLICK*

President, Roy Wenzlick & Company, St. Louis, Mo.

Starting with assertion no boom lasts forever, real estate analyst predicts current boom will end in 1950 and nation will then experience major economic depression, which will reach its lowest point between 1955 and 1957. Says at bottom construction costs will still be 73% higher than in prewar period. Sees danger of over building.

I am going to try to cover in my talk the various economic factors which affect the safety of real estate mortgages. I think in the last analysis the one thing all of us will have to watch in the next few years—I am not going to be at all dogmatic in my forecasts, although I realize in a fashion that every forecast has to be dogmatic—whether we believe that forecasting can be done, or not — is that every time we make a mortgage, we are making a forecast of the future, but at the time I wrote "The Coming Boom in Real Estate," back in 1936, I said then that I thought you could ask almost anyone what was going to happen to real estate and there were two chances out of five—or at that time I said there was one chance out of five—that I thought his opinion on the future would be better than mine. I think, however, that that percentage figure is coming up.

Roy Wenzlick

I also think in the very uncertain conditions in which we find ourselves at the present time, possibly in a transition year, that we have to say that anyone's guess has a percentage at the present time of two chances out of five; in other words, a 40% chance—without any information on the subject at all—of being able to guess what was going to happen, more than the advice of a person who has spent his lifetime studying that particular subject.

Whenever I start to think about the real estate situation and the mortgage situation today, there is one thing that always comes home to me and it is this: No boom has ever lasted forever, and I think if I could print that on a big placard, I should like to see it in the office of every banker in the United States in great big letters: No Boom has Ever Lasted Forever!

I think that is very apparent when we look at my long chart here at the top of our panel. This chart, as you will remember, starts in the year 1795 and runs right through to the present. It shows the real estate and construction booms we have had in the United States over the entire history of the country, in contrast with the fluctuations we have had in general business in the same years. Our general business conditions are shown by the red areas above and below our normal line in contrast with the real estate booms and depressions shown in black in the later part of the chart and in gray in the early part. We use gray in the early part because the number of cities on which our information is based is far less than in the later period and therefore we can draw those areas less exactly than we draw them in the last part of our chart.

Real Estate Booms

You will notice, and I pointed out, I think, to a number of groups that have contained many men in this audience in the past, that as a regular thing these booms have come at long intervals. Our real estate booms and depressions do not occur in sharp periods; from the top of the first boom to the top of the second, was 20 years, to the top of the third was another 20 years, and, as we come across our chart, we will find that we have never had a period shorter than 16 years nor longer than 21 years between these peaks of the booms.

In contrast with general business, you will find that as a rule the fluctuations of general business have been rather short.

Then the other thing that I should like to point out again would be this, that as a regular thing in the past every real estate boom goes to excess and every real estate depression is a very serious depression. You have no little real estate booms. You notice how high they go in relationship, regularly, to the height of general business; and then the third thing that I have generally pointed out would be the regularity with which these booms have occurred.

Now, by regularity I don't mean, of course, that I can tell the month in which a boom will occur, or even the year, but within rough limits, you will notice this green dotted line we have on our chart. Now, that green dotted line is a regular curve, a little bit more than 18 years in length. It begins up here, it swings up in eight years and down in ten, and notice how, as a general thing, that green dotted line has formed a rough outline of our big real estate booms and depressions.

Now, you will notice that our present real estate boom arrived a little late. The general business boom came at about the time shown in red there on our chart, about the time we would have expected the real estate boom to occur, but in place of that, our real estate boom didn't start until this point here, and went up in this fashion.

I don't believe that there is anything mystical or magical about this $18\frac{1}{3}$ years. I was the first man in the United States, I am sure, who measured the length of the real estate cycle and put it at that length, but I didn't think that there was anything necessarily in the figures which would mean that a real estate cycle must approximate that length. I merely mean by that that on the average in the past it has taken about that long for the various factors to work themselves out in such a way that these various things come to pass.

I started out by saying that no boom ever lasts forever. If you will look at our chart, you will notice that if we measure real estate activity by the number of transfers, which is what the black areas are based on there, we have already passed the peak and we are well past the peak. The peak of real estate activity in the United States was in the fall of 1946. At that time our index, based on all principal cities, was 86% above our long-term computed normal. It has been dropping month by month until at the present time it is only about 21% above the computed normal.

If you will run back, however over our chart, over a long period of years, you will find that activity 21% above normal still constitutes in these past booms quite a boom; in fact, a friend of mine out in California has said that a boom is no longer super-colossal; it is merely colossal, but every month is showing a drop.

In our report on the first of January, 1948, I drew a chart showing the way I thought real estate activity would decline to our normal line, and at the present time the actual drop is faster than I anticipated at that time.

Now, how long — how much longer—will this real estate boom last? Let me show you an effort I have made to get one answer to that question. There are probably many answers, but this is one effort to answer that question.

I have taken our long chart as we have it above, and I have cut it up into sections, and I mean just that. I took a paper chart and I cut it up until I had the boom and the depression that followed in each section. This was the first real estate boom we had in the United States, and this our first big real estate depression. This was the second and so on. I then lined up all of these booms and depressions with the peak of the boom falling along this red line on my chart. These green lines are at one-year intervals, with the heavy green lines at five-year intervals, and let's see what has happened in the past regarding the length of these booms.

From the top of this first boom to the point where we cross the normal line, was four years. From the top of the second boom to the point where we crossed the normal line was four years; the third boom, to this point, was four and a half years; this was four years; this was three years; this five; this approximately five; this four; and if our present boom should be the average experience of the past, we will cross our normal line on the way down some time during 1950.

Now, let's look again for a minute. From the top of our boom to the bottom of the succeeding depression, in the case of the first boom, was ten years; in the case of the second boom was ten years; in the case of the third boom was ten years; the next boom was nine and a half years; the next boom was six years; the next boom was ten years; the next was thirteen years; and the next was eight. If, again, our present boom should develop into the succeeding real estate depression, repeating the average experience of the past, we would be down at the bottom of the next big real estate depression in 1955.

You will notice there have been a few cases where our depression has occurred sooner than that. One of those cases was the depression that followed the boom of 1872. and you will notice in that case we have reached the bottom of our depression only six years after the top of the boom.

I have given that depression some thought, because it just happens that in that depression, following, by the way, the inflation of the Civil War and the deflation that followed that war, foreclosures went to greater heights in relationship to the number of families in the United States, than they ever went before.

The other depression which was shorter than our general average, was the one that followed the first World War, and there, too, we were wiping out a credit in-

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*Stenographic report of address by Mr. Wenzlick at Mid-Year Meeting of the National Association of Mutual Savings Banks, New York City, Dec. 6, 1948.

Sees Pegged Bonds Counteracting Higher Reserve Requirements

Dean Collins and Dr. Nadler, in bulletin of Institute of International Finance analyzing bond pegging policy, maintain, however, monetary authorities by bond purchases are taking the lesser risk and are discharging their duties in best possible way. See no likelihood of abandonment of government bond support.

In the current bulletin of the Institute of International Finance of N. Y. University, issued by Dean G. Rowland Collins, Director, and Marcus Nadler, Research Director, the dilemma caused by the Federal policy of pegging the government bond market is analyzed in detail and the conclusion is arrived at that though this policy of heavy purchases by the Reserve Banks nullifies the deflationary effects of raising reserve requirements, the monetary authorities are taking the lesser risk and are discharging their duties in best possible way under rather difficult conditions. According to the Bulletin: "The credit policies of the monetary authorities during the past two years were determined by two factors; namely, the desire to stem as far as possible the forces of inflation and at the same time to maintain an orderly government bond market. In order to achieve the former, the following steps were taken: the pegs on government obligations were lowered on Dec. 24, 1947; short-term money rates were permitted to increase and after the Board of Governors of the Federal Reserve System obtained, on Aug. 16, 1948, the power to raise reserve requirements they were increased on Sept. 8, effective Sept. 16 and 24, 1948, respectively, by 2 percentage points against demand deposits and $1\frac{1}{2}$ percentage points against time deposits. These measures were undertaken in order to reduce the lending and investing ability of the banks and to prevent a further increase in the volume of bank credit and of deposits. To a large extent, however, the measures taken by the monetary authorities were nullified by the support policy of the government bond market which forced the Reserve Banks to acquire a large amount of government securities thus creating reserve balances. So long as the Treasury had a large surplus at its disposal, it utilized the surplus for redeeming maturing obligations held either by the Federal Reserve Banks or the commercial banks. Redemption of securities held by the Reserve Banks counteracted open-market purchases made by the latter whenever there were no buyers at the support level prices. The lowering of taxes in 1948 coupled with the increase in government expenditures has altered the budgetary outlook of the Treasury and has greatly aggravated the problem of the Reserve Banks of curbing inflation and pegging prices of government obligations at the same time.

Dr. Marcus Nadler Geo. Rowland Collins

Increased Reserve Requirements

"Were it not for the open-market purchases of the Reserve Banks the disinflationary measure taken in September 1948 would have been very successful and the results would have been as follows: (1) The raising of reserve requirements would have wiped out the existing excess reserves which on Sept. 8, 1948, amounted to $1,020,000,000. The higher legal reserves required approximately $2 billion of additional reserves. (2) It would have forced the banks to sell government or other obligations in order to meet the increased reserve requirements. (3) Since insurance companies are primarily interested in long-term bonds, the number of buyers of short-term obligations would have been very limited and yields on government obligations would have increased considerably. (4) Many banks would have been reluctant to sell government obligations at a substantial loss and either would have called loans or borrowed much more freely from the Federal Reserve Banks. The latter in turn would have raised the discount rate, thus further accentuating the strain in the money market. Hence, if the Reserve Banks had not adhered to the policy of maintaining prices of government obligations at the support levels, the raising of the reserve requirements would have resulted in a material tightening of the money market and a considerable reduction in the volume of credit. Moreover, the commercial banks would have adopted a much stricter attitude toward granting of loans and many small and marginal concerns would have been forced to liquidate inventories in order to repay their indebtedness to the banks. Such a situation could have caused a material decline in business activity accompanied by a considerable increase in unemployment. While under such circumstances prices of most manufactured goods would have declined substantially, the cost of living would have remained temporarily unchanged since the support program under the Agricultural Act of 1948 would have prevented a sharp break in prices of farm products. However, it may be definitely stated that raising reserve requirements, if it were not accompanied by large-scale open-market purchases by the Federal Reserve Banks, would have been the most successful anti-inflationary measure that could have been taken by the monetary authorities and would have brought to a halt the constant upward movement of commodity prices.

"The raising of the reserve requirements by the Reserve Banks did not achieve the desired results because of the continued purchases of government securities by the Reserve Banks aimed at maintaining an orderly government bond market. Between Sept. 8 and 29, 1948, the Federal Reserve Banks increased their holdings of government obligations by $2,042,192,000, of which amount bonds accounted for $1,338,114,000. So long as the Reserve Banks continue to buy government obligations, the raising of reserve requirements does not curtail the ability of the banks to lend and invest. It merely causes an exchange of earnings for nonearning assets, *i.e.*, a decline in the holding of government securities and an increase in reserves of the member banks. This, of course, takes place only when the Reserve Banks buy securities sold by the member banks. An entirely different situation prevails when the Reserve Banks are buy-

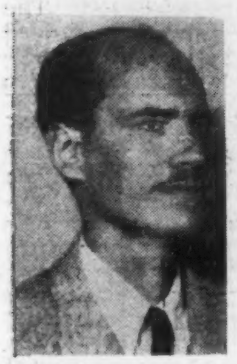
(Continued on page 65)

Labor-Management Responsibility

By DAVID McCORD WRIGHT*
Professor of Economics, University of Virginia

Viewing economic situation as portending a continued inflationary trend despite possible short-run setbacks and adjustments, Professor Wright contends that greater productivity, high profits, and continued savings, rather than higher money wages, are vital to the increased supply of goods desired by the worker. Says at times we must use "deficit finance" as a stabilizer, and urges steps be taken to give smaller man a chance in business. Holds government price curbs largely ineffective.

According to the program I am to "outline a picture of the future, covering such questions as the nature and consequences of current wage policies, union policy and technology, cooperation of management and labor to increase productivity, and the public as a factor in union management relations." This is a tall order for 40 minutes, or indeed, for 40 years. At most one can only give a tentative sketch. It is even difficult to decide what general approach to use. It seems to me, however, that the general feeling of many elements both of labor and the public, that all the unpleasant things which ever occur are the result of capitalism, and that if we only had socialism or various forms of generalized planning the need for unpleasant adjustments would disappear, is more important at the present time than any specific labor issues. A great deal, I suggest, would be gained if labor and the public would realize that many, if not most, of the economic frictions which are now present would inhere in any system. Accordingly I shall concentrate on broader issues of this sort. In doing so I shall have to repeat a good deal that has been said elsewhere, but while the superficial elements of a situation change constantly, the fundamentals do not.



D. McCord Wright

One cannot, however, escape from certain forecasting assumptions. There has been, ever since V-J, much talk of an imminent depression. For reasons to be touched on later, I do not rule out this possibility. But I am convinced that such a depression, if, or when, it comes, **need** not be very deep, nor **need** it last very long. Always, of course, there is the possibility that a depression, however mild, will touch off such strong anti-capitalist feeling and such (consciously or unconsciously) revolutionary policies as to be artificially prolonged—even to the destruction of our system. But none of this has to happen. The basic economic outlook, barring errors of policy, seems to me very favorable.

The problem of our generation, I believe, will be far different from unemployment and protracted stagnation. Instead of Lord Keynes' vision of an economic "day of judgment"—due to unemployment—I believe our long range problem for the next 20 years or so will be one of recurrent pressure toward **"over"** employment (if one may use such a word) and its nearly inseparable twin, inflation. That is to say that barring the temporary checks which can be shown to inhere in any dynamic and liberal system, the general pressure on prices will be upward. I do not base this prediction merely on war damage, for that, presumably, can someday be repaired; but on the following factors existing today: (1) a massive rise in consumption habits; (2) an immense increase in the demand for government-provided welfare services requiring a great deal of capital; (3) a general determination of the "backward" countries, to industrialize as quickly as possible. These forces alone, I believe, could account for a long run upward pressure. But add to them the possibility of war and the present great increase in our military outlay, and the likelihood of a secular upward trend in prices seems to me overwhelming. We may expect some prices and some industries to decline, and there may be, as explained, a short-run depression, but the general long-run trend will be avoided.

Now if this is so, the outlook in labor-management relations will largely turn on three questions: (1) How will labor and management react to inflation? (2) How will the public react? (3) Is there any chance of slowing down this long run upward movement so as to keep it in tolerable bounds? The answer to the last question depends on the first two. If labor, management, and the public react intelligently to inflation then I believe we can weather the crisis. But if they do not, we stand on the edge of social chaos.

Yet the reaction of labor and of the public will largely depend upon whom they choose to blame for the price rise—and so far a strenuous effort has been made, not only by avowed radicals, but also by many ostensible sympathizers with the capitalist order, to place the major blame for our present condition upon the shoulders of management. Sometimes these efforts have been the result of a lack of information, or understanding. But in far too many cases they constitute a reflection either upon the intelligence, or the integrity, of those who make them. I find Senator Wayne Morse of Oregon quoted (I hope incorrectly) as follows: "The American people are sick and tired of being told depressions are part of the price we pay for liberty, because they know it need not be so if more politicians represent the people rather than the special interests. . . . They know there's no excuse for so many millions being priced out of owning a home. They know the inflation which has turned the dollar into a fifty-cent piece could have been, and still could be, checked, in part, by a Congress willing to recognize that free enterprise does not mean license for the owners of capital and sources of production to profiteer."

Against this quotation from from Morse I should like to set a quotation from the man whom we have just mentioned as more responsible than any other economist for driving home the idea of the "economy of abundance" and the danger of unemployment. His work is still the bible of many modern left-wingers and if Senator Morse will not listen to others he at least should be impressed by Lord Keynes. Keynes wrote after the last war: "Lenin is reported to have said that the surest way to destroy capitalism was to debauch the currency. The governments of Europe, being many of them at this moment reckless in their methods as well as weak, seek to direct onto a class known as 'profiteers' the popular indignation against the more obvious consequences of their own vicious methods. These 'profiteers' are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot but get rich quick whether they wish it or not. . . . By directing hatred against this class, therefore, the European governments are carrying a step farther the fatal process which the subtle mind of Lenin had consciously conceived. **The profiteers are a consequence and not a cause of rising prices."** (bold face added).

The underlying cause of our present condition is not the repeal of the OPA—which I would presume to be largely Senator Morse's contention—but the shortsighted methods of war finance followed by the Roosevelt administration. This can be demonstrated from the strictest Keynesian logic. But the policies of war finance were not merely the outgrowth of a normal reluctance on the part of consumers to pay adequate war-time taxes. They were also derived in part from the influence of economists who were conscienciously convinced that the end of the war would bring deep and prolonged depression, and who therefore deliberately encouraged the creation of an inflationary potential Keynes may at one time have been of this school, but so far as technical analysis goes, I am myself a Keynesian economist, and I possess personal letters from him which show that before he died he had ceased to expect any quick return to unemployment glut even after the war.

However, we cannot stop with the war-time creation of money, or the influence of pessimistic economists. The money would have done no harm had it been held idle, as was done during the depression. The root cause of our trouble, the one overshadowing all others, is the tremendous rise in consumption and demand for wage increase at a time of world scarcity; the fact that all over the world, and even in the United States, the masses have been encouraged to expect and to demand a standard of living which we simply do not have the capital to give them. Here is the basic source of our present acute labor strife. The question is—how shall we meet it?

I

What has just been said must not be taken as meaning that the labor problem is a purely economic one. There are all the psychological problems of size, and of the adaptation to change. Some of these are, I believe, to be discussed by Mr. Kestenbaum in a later session. I have tried to point out the most important of them in my book on democracy, and we will touch on them again in this paper. But just at the present time the price situation overrides all others. If labor can be brought to understand the real nature of our present problem, if labor and the public can be persuaded to agree to the measures needed to combat it, we will have gone a long way toward labor peace. But if such an understanding cannot be reached, then the outlook is very dim.

The first step to sanity lies in treating our problem not as a matter of **prices** but as a matter of welfare and of standards of living. Of course **official** prices can al-

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*An address by Professor Wright at the American Management's Personnel Conference, New York City, Sept. 23, 1948, and revised by author on Dec. 12, 1948.

Canadian Securities

By WILLIAM J. McKAY

The London U.K.-Canadian trade parleys and the announcement of Britain's new Four-Year Plan when considered together create an impression of tragic unreality and wasted effort. Canada is fully able and only too anxious to supply Britain with the food and raw materials of which she stands in such desperate need. However the Dominion's growing surpluses of commodities urgently required in the British Isles can not be exported freely in view of Britain's artificially maintained economy. Only to a limited degree can Britain provide the exchange necessary to pay for Canadian exports. The limited convertibility of sterling into U. S. dollars, which is a direct result of a regimented British economy designed to maintain sterling at an artificial level, creates an almost insuperable barrier.

Hopes for a happy solution of the problem might nevertheless be entertained in the absence of the knowledge of the outlines of future British economic policy as evidenced by the new Four-Year Plan. Its keynote of future austerity superimposed upon existing austerity connotes further regimentation and an almost desperate resolve to rebuild upon the rapidly diminishing internal resources of the British Isles. Public capital is to be lavishly expended as follows:

(1) £450 million to increase agricultural output — meanwhile Canadian surpluses and vast empty spaces of potential arable lands within the Dominion constitute a Canadian problem in an opposite direction.

(2) £250 million to develop the iron and steel industry—on the basis of the Quebec-Labrador iron-ore deposits alone a new steel empire could be created.

(3) £120 million for the extension of the oil industry—British oil expansion is now dependent on foreign concessions and is thus vulnerable to impredictable changes of foreign politics—the vast oil potentialities of Canada are meanwhile largely neglected by British interests.

(4) £500 million to increase electricity supplies — Canada meanwhile has the largest unutilized reserves of cheap hydro-electric power in the world.

(5) £200 million to increase the production of chemicals and plastics — the availability of raw materials, cheap power, abundant fresh-water, and low-cost factory sites within the Dominion creates a manufacturer's paradise—in the field of plastics Canada has an almost unlimited scope for expansion on the basis of its unrivaled forestry wealth.

(6) £50-£60 million for an expanded shipbuilding program—Canadian ship-yard facilities on the Pacific and Atlantic seaboard, the Great Lakes, and the St. Lawrence can be extended to a degree impossible of attainment within the British Isles.

(7) An indefinite amount for the reequipment of the textile industry—the Canadian potentialities for the production of synthetic fibres with the employment of modern American machinery are also unrivaled in the United Kingdom.

It is thus illuminating to note the suggestion advanced in almost desperate vein by Canadian Minister of Agriculture Gardiner during the course of the U. K.-Canadian trade talks that: "Canada should be filled with people to develop the resources the world needs for its war and other machines so that they may eat the surpluses already piling up but which we are not permitted to sell." This idea moreover can be implemented in practical fashion along the lines of another similar suggestion that Britain should establish within Canada satellite industrial towns modeled on existing towns in the United Kingdom. Then in place of the existing futile efforts to rebuild by socialistic regimentation a Britain greater than that previously built-up by private initiative when the domestic resources were still unimpaired, a rejuvenated British industrial system would hold high hopes of still greater achievement in a young country of incalculable economic promise.

During the week the external section of the bond market was quiet and inactive but demand still persisted for provincial issues, notably Albertas. The internals were steady despite a slight weakening of free funds. On the Canadian stock markets the gold issues again held the limelight following sustained demand on U. S. account. This movement is probably due to investor sentiment sensing that the top of the industrial boom has been reached, and consequently the gold-mining industry would provide the best hedge against the impact of a business recession. The base-metals also made some headway but the Western oils and industrials were mostly lower.

Robinson & Lukens Formed in Washington

WASHINGTON, D. C. — Robinson and Lukens has been formed with offices in the Union Trust Building as successor to Robinson, Rohrbaugh & Lukens. Partners are T. Baker Robinson, member of the Washington Stock Exchange, and Charles P. Lukens, Jr.

Reasons for Higher Rail Rates

By JULES BACKMAN*

Associate Professor of Economics, New York University

Calling attention to low earnings and declining profit margins of railroads, despite record peacetime traffic volume, Dr. Backman estimates, even with 13% increase in rates requested, real railway operating income will be 37% below the 1925-29 average. Points to need of higher earnings based on railroad property valued at current prices.

The Profits Position of the Railroads

Although the volume of traffic is at new record levels (except for the war period), railroad profits have fallen short of the totals achieved during the prosperity of the Twenties when the volume of traffic was substantially lower. Higher wage costs and higher material costs, together with moderate rate increases, have combined to hold net railway operating income at levels substantially below those warranted under current conditions. The contrast between railroad profits and those in other industries has been marked during the postwar years.

Jules Backman

The fact that railroads have not participated adequately in the current boom, as compared with other industries, may be indicated by examining the relationship between levels of profits in the late twenties and currently. The United States Department of Commerce data currently used to show corporate profits, have been revised back to 1929. It is necessary, therefore, to limit the comparison to the relationship between profits in 1929 and in 1948. The use of the 1929 base does not provide any significant distortion of the relationship during the prosperous twenties. For railroads, net railway operating income was moderately higher in 1929 than in the immediately preceding four years. Substantially, the same relationship prevailed for profits of all corporations. For both groups, the 1929 profits were the highest for the entire decade. It is clear, therefore, that no significant distortion in relationships takes place because 1929 is used as the basis for comparision.

In 1929, corporate profits after taxes were $8.4 billion. In the first half of 1948, these profits were at the average annual rate of $18.6 billion, or 121% higher than in 1929. In contrast to this record, the railroads had net railway operating income of $1,252 million in 1929 and an estimated $1,012 million in 1948, or a decline of $240 million. In other words, while the profits for all corporations was more than twice as high in 1948, net railway operating income was 19% lower in 1948 than in 1929. Not only was net railway operating income less than in 1929 but even before the latest increases in costs, it is estimated to be lower in 1948 than in any of the years from 1925 to 1929.

The same picture is given by data prepared by the National City Bank on the rate of return on net worth of leading manufacturing corporations. According to the National City Bank estimates manufacturing corporations averaged 12.8% on net worth in 1929 after taxes and 19.1% in 1948. During the same period, the return on net investment of railroads declined from 5.2% in 1929 to 4.4% in 1948.

If the comparison is made in terms of the proportion of the revenue or sales dollar retained as profits, it is found that profits after taxes were roughly the same in 1929 and in 1947 at 6.3% of sales for manufacturing industries. For railroads on the other hand, net railway operating revenue fell from 19.9% of total operating revenues in 1929 to 10.5% in 1948. In other words, whether the base taken is net worth or sales, it is found that railroad profits have lagged considerably behind those for other industries.

The return on net worth for manufacturing industries usually is substantially higher than for railroads. In 15 of the 20 years from 1929 to 1948, the return on net worth for all manufacturing industries was in excess of 6%. In nine of these 15 years, the return exceeded 10%. Of course, in connection with these data, it must be kept in mind that for railroads and for manufacturing industries, net worth, (which is based upon the book value of assets) has been substantially below current market values during the war and postwar years.

The contrast between manufacturing and railroads is marked. Throughout this entire period, the net railway operating income exceeded 6% on net investment in only one year and was between 5% and 6% only in two other years out of the 20 years shown in the tabulation. If the comparison is made on the basis of net income as related to capital stock and surplus, the railroads have earned in excess of 6% in only three out of the 20 years, while earnings were between 5% and 6% on only one other occasion. Traditionally, publicly regulated industries, such as railroads, are supposed to earn less than "free industries" in periods of prosperity and to earn more in periods of contraction. Generally speaking, this has been true of public utilities, other than railroads. Railroads have earned less both in the depressed Thirties and the prosperous Forties.

The fact that other industries have had more latitude in raising prices has been a contributing factor in recent years. It is not unimportant to note that in four of these 20 years, the railroads' net income after payment of interest and rentals on leased lines disappeared and deficits were reported. In contrast, large manufacturing companies, on the basis of the National City Bank sample, reported a negative return only in one year. In addition, while a number of failures took place in manufacturing industries, the extent of receiverships did not reach the magnitude experienced by railroads. In 1938, 111 companies accounting for 78,000 miles, or 31% of the total mileage of all railroads were in reorganization or receivership. (Fifty-Second Annual Report of the Interstate Commerce Commission — 1938.) The widespread scaling down of interest charges and the wiping out of equities following this unfortunate experience is well known and needs no discussion at this point.

Ordinarily, the return on capital is considered to bear some relationship to the risks involved. Investors are reluctant to undertake new commitments unless they can secure returns commensurate with those commitments. Usually, an industry which has been subject to widespread losses and wide fluctuations in income, would be expected to offer a higher return to investors than industries in which the losses have not been so great. On this basis, it would seem as though a return to railroad investors as large or larger than other industries, would be called for in terms of the experience outlined for the past 20 years. Nevertheless, the actuality has been in sharp contrast to what would be expected, as I have pointed out previously.

Regardless of what test is used to measure profits, railroads have not participated in the current boom to the same degree as have other industries although in terms of volume of traffic and cost increases, both for materials and wages, their participation has been complete.

Railroad Profit Margins

One aspect of the railroad profit picture which must be viewed with serious concern is the margin which net railway operating income represents of total operating revenues. It would be expected in an industry such as the railroads, characterized by heavy fixed costs, that a period of expanding volume would be accompanied by a sharp increase in the ratio of profits to gross revenues. Conversely, in such an industry, the reverse tendency would be true during periods of depression when it would be expected that the rate of return on sales would decline very sharply as the reductions in expenses lag behind reductions in revenues by a considerable margin.

Chart I shows the trend of total operating revenues and the profit margin plotted against a background of business cycle changes from 1911 to 1949. The shaded areas on the chart represent periods when business activity was declining. The periods are those determined by the monumental studies of Wesley C. Mitchell and his associates at the National Bureau of Economic Research.

In order to eliminate the influence of taxes, I have added Federal income taxes to net railway operating income to show the **profit margin before income taxes.** The net result is shown in the lower part of Chart I.

An examination of the chart shows the manner in which this margin before taxes has responded to changes in total operating revenues and **reveals the abnormally and dangerously low level of this margin today.**

From 1929 to 1932 when total gross revenues declined sharply, the proportion which became net railway operating income before income taxes declined from 21.3% to 10.8%. During the following years, as volume rose above the depressed levels of the early thirties, some increases were recorded in the margin. Again, when total operating revenues declined sharply from 1937 to 1938, the percentage decline in net railway operating income was even greater so that the proportion fell from 15% to 11%.

During the early war years, as volume expanded, net railway operating income before taxes increased at an even faster rate, as was to be expected. By 1942 the margin had reached 30% but much of this was absorbed through high wartime taxes. In the later war years, the margin declined as sharp increases in expenses took a larger share of

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*From a statement by Dr. Backman before the Interstate Commerce Commission, Ex Parte 168, Request for a General Rate Increase of 13%, Washington, D. C., Dec. 4, 1948.

Importance of the Interest Rate

By DR. PER JACOBSSON

Commenting on low interest rates under which World War II was financed, noted Swedish economist ascribes situation to wartime curbs on wages and expenditures. Points out though in wartime rate of interest has little importance, this does not apply to normal conditions, when level of interest rates is determining factor in calculating profitability of large scale operations. Cites effects of interest in calculating value of earnings assets, and advocates central banks rigorously abstain from pumping fresh funds into market by bond purchases, since this prevents determination of proper level of interest rates.

The second World War was the first in history to be financed by means of cheap money; in Great Britain, as in Sweden, long-term government borrowing was mostly at the rate of 3%; in the United States the level was pushed down to 2½%; while in Germany the bulk of the wartime financing was of a short-term character, the needs of permanent stability being sacrificed for the sake of immediate advantages — as a matter of fact more apparent than real.

Prof. Per Jacobsson

As it had thus been shown that even the enormous volume of war expenditure could be financed at relativey low rates, why, it was asked, should it not be possible to maintain such rates in time of peace with a view of facilitating economic and social progress? It does not need much reflection, however, to realize that the maintenance of the low wartime rates was dependent upon particular conditions, only existing in a strictly controlled war economy. On the one hand, the huge budget deficits, partly met by creation of credit, ensured great liquidity to the markets, and, on the other hand, the system of prohibitions and controls restricted investments to those useful for the war effort, with the result that private investments, in particular, were no longer influenced by the price to be paid for funds in the market. But a continuance of heavy budget deficits would soon bring financial ruin and economic disorganization, while the perpetuation of wartime controls would effectively stifle enterprise and thus retard or even prevent an improvement in general welfare. The question of the rate of interest, indeed, has once more to be considered in relation to an economy free from the peculiar wartime controls. For it will not do to pick out from the war economy such features as, for one reason or another, appear attractive, while omitting all the ra-

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*Reprinted by permission from the October, 1948 Quarterly Review of the "Skandinaviska Banken."

The Marital Deduction and Split Gift Under Revenue Act of 1948

By JOHN J. WALDRON*

Professor of Law, Loyola University School of Law, Chicago

Attorney, Pam, Hurd & Reichmann, Chicago

Chicago attorney reviews changes in Federal estate and gift taxation under Revenue Act of 1948, whereby effort was made to equalize tax liability in all states, whether recognizing community property status or not. Contends under Act the estate tax marital deduction emerges as tax shifting device whereby relief of taxation of the estate of spouse first to die will be taxed in estate of survivor, and points out this in end may lead in some cases to higher combined state and Federal taxes than under old law.

For many years prior to 1942 residents of the community property states enjoyed a tax advantage which was the envy of their common law brothers. The advantage grew out of property concepts in force in those states under which each spouse was half-owner of all family earnings and accumulations. Although the wife's half-interest was subject, during the marriage, to the husband's rights as manager of the community property, and in other respects fell short of title in the full sense, the split ownership was recognized for tax purposes.

John J. Waldron

No such property notions prevailed in common law states. There the husband's earnings and all property acquired with such earnings belonged entirely to the husband. Hence, in the usual case where the husband was responsible for the family earnings, the tax position of the family differed widely under the two systems of law. Under one system, each spouse was taxed on half the family income; under the other, the husband was taxed on the whole of it. Under one system, a division of family assets between the spouses involved no gift tax; under the other, a tax had to be paid on the share passing to the wife. Under one system, a gift of family property to a third person was taxed one-half to each spouse; under the other, it was taxed wholly to the husband. Under one system, only half the family holdings fell into the husband's estate at death; under the other, all of such holdings were included in his gross estate. The unfairness of this in a progressive rate tax scheme, especially with soaring wartime rates, made some correction inevitable.

One way to correct the disparity was to disregard the community property doctrine which produced it; and, though efforts to achieve

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*An address by Mr. Waldron before the 17th Mid-Continent Trust Conference of the American Bankers Association, Chicago, Ill., Nov. 5, 1948.

Sees Soft Spots in Midwest Business

December monthly review of Federal Reserve Bank of Chicago says weakness in many lines can be traced to declines in consumer spending relative to income. Says short-term outlook remains good.

The over-all strength of business in the Seventh Federal Reserve District in 1948, according to the monthly review, "Business Conditions of the Federal Reserve Bank of Chicago has tended to obscure "some soft spots" in the business picture which now warrant attention because of their implications for the future. In recent months, says the review, more and more individual lines of goods and services have begun to experience declining sales, scattered layoffs, and losses, with some new rise in failures. These soft spots—industries in which boom conditions have disappeared—appear to be spreading gradually, and are now to be found in fields employing roughly 15-20% of total District workers. While not concentrated in industries for which the District is best known, nor in any specific industrial area, nevertheless, such weaknesses do affect particular businesses, financial institutions, and individuals.

Continuing, the article states:

"The time definitely seems to be returning when ability to cope with consumer price consciousness is the most important determinant of individual business success or failure. Most business managements, moreover, face new, and no doubt continuing, tests of their preparedness to compete successfully for consumer dollars. The over-all business level and short-run outlook remain favorable, but the period of 'assured" sales for most products appears to be steadily nearing an end. Too frequently, however, this return to more normal sales conditions, including the recurrence of seasonal declines, is being interpreted as the beginning of a badly depressed era for business. Rather, it seems more probable that these soft spot developments indicate that the almost inevitable—and desirable, from an anti-inflationary standpoint—shift toward more "normal" market conditions is getting under way after several years of inflationary boom.

"Since 'marginal' business organizations are encountering increasing sales and financial problems generally, it cannot be said that the soft spots are confined to luxury lines, although it is in this general category that most business difficulties have arisen during the past year or more. Some goods which can be classified only as necessities also are showing declining sales and glutted inventories because production has more than caught up with previous backlogs of demand. The two basic and interrelated causes underlying the soft spots, therefore, may be given as: (1) consumer budget stringencies and (2) the end of abnormal demand backlogs.

"The effects of consumer budget stringencies first began to be felt in those business lines which had experienced abnormally high war and initial postwar demand because of rising incomes amidst a relative scarcity of competing goods for sale. Thus, jewelry stores, furriers, and night clubs, for example, were adversely affected as far back as two years ago when other more essential goods and services began to become available again on a more general scale. Later, further rises in living costs brought about decreased expenditures in allied, less essential consumer fields such as hotels and commercial services, eating and drinking places, and, during the last few months, in bakeries and delicatessens.

"Causes for the weakness in many lines can be traced directly to recent changes in consumer expenditures relative to income. The war years clearly distorted the consumer buying pattern. Many durables which represented a substantial portion of prewar consumer budgets either were not produced at all for civilian use, or were produced in limited numbers. This shortage of durable goods brought about sharply increased savings in all forms, but also caused a disproportionate expenditure for nondurables and available luxury items. The acquired wartime buying pattern necessarily has been altered as consumer durable goods production has increased and prices of essentials have continued to rise."

NSTA Notes

BALTIMORE SECURITY TRADERS ASSOCIATION

The Baltimore Security Traders Association on Jan. 14 will hold its 14th annual banquet at the Lord Baltimore Hotel.

BOND CLUB OF LOUISVILLE

On Dec. 21 the Bond Club of Louisville installed the 1949 officers. They are: Urban J. Alexander, Urban J. Alexander & Co., President; Henry Christman, Jr., James C. Willson & Co., Vice-President; Robert H. Johnston, Jr., Bankers Bond Co., Secretary; and William T Watkins, Merrill Lynch, Pierce, Fenner & Beane, Treasurer.

Norris Obsorn Opening

Norris E. Osborn will engage in a securities business from offices at 17 John Street, New York City.

Joins Dean Witter

LOS ANGELES, CAL.—Frank B. Mosher is with Dean Witter & Co., 632 South Spring Street.

Loring Dam Is Pres. Of Phila. Bond Club

PHILADELPHIA, PA.—Loring Dam, a resident partner of Eastman, Dillon & Co., was elected President of the Bond Club of Philadelphia at the annual meeting held at the Racquet Club.

Willard S. Boothby, of E. H. Rollins & Sons Incorporated, was elected Vice-President. Raymund J. Kerner, of Rambo, Close & Kerner, was elected Secretary; and Leo M. Dolphin, of Dolphin & Co., Treasurer.

H. Gates Lloyd, of Drexel & Co., retiring President, was elected to the Board of Governors for a term expiring in 1949; and Norbert W. Markus, of Smith, Barney & Co., and R. Conover Miller, of E. W. & R. C. Miller & Co., were elected for terms expiring in 1951.

We Are Not Winning Against International Communism

By ERIC JOHNSTON*

President, Motion Picture Association of America

Asserting roadblocks to direct Soviet expansion will not insure world peace, Mr. Johnston holds we are flirting with disaster if we enter upon a war to blot out communism. Urges we acquire greater knowledge of communism. Lists five types of communists, and points out Russia cannot create conditions under which communism takes root, but can aggravate and take advantage of them. Advocates adopting global program to utilize fully world's natural and human resources as well as a vast extension of "partnership capitalism." Proposes a World Development Corporation.

Ten weeks ago I left New York by plane for a trip through western Europe, behind the Iron Curtain and into the Soviet Union itself. I talked to heads of states, to men in business, men in the professions, labor leaders, journalists and—I'm happy to report to you because they were so helpful to me—to your opposite numbers in the field of education.

Eric A. Johnston

I came home with this conviction: The democratic world at the moment is not winning the struggle against international communism.

I wish I could have brought home better news. I can say that industrial and agricultural production has materially risen in western Europe. But I must also say that many of the basic causes of communism still remain. I would be dishonest if I gave you any other report. It would be fatal self-deception not to recognize facts, unpleasant though they are.

I have come home intensely aware that international communism is not withering away. It is on the ascendancy. It has stepped up in momentum.

And I have come home intensely aware that the peace of the world depends on more than erecting roadblocks to direct Soviet expansion. We misunderstand Soviet Russia completely if we believe that she puts her main reliance on the Red army for territorial gains. She has a more effectual way. She utilizes communist parties all around the world to exploit economic and political weaknesses and injustices. The missionaries of Moscow number in the millions. They are in every country. That island which looks like a dot on the map is as certain to have them in residence today as we're certain we have them right here.

The Moscow missionaries are astounding in the intensity of their zeal and their fervor. They are everlastingly on the job. They'll make any sacrifice, take any kind of physical beating. They have a vitality which is startling and fantastic.

What does all this mean for us in the western democratic world? It means for us just this—that what we do or what we fail to do is vastly more important than what Russia does.

*An address by Mr. Johnston before the Iowa State Education Association. Des Moines, Iowa, Nov. 5, 1948.

Do We Meet the Challenge?

That leads me to ask this large and vital question:

Have we been meeting in a sane and intelligent way the bold and audacious challenge of communism for total world domination?

I don't believe we have. In light of what I saw and heard, some of our traditional methods of meeting this challenge look suddenly hoary with age.

We need to pause for a moment and take a fresh look at ourselves and our ways—and our means.

Have we fully understood communism for exactly what it is? Are we still thinking of communism as "the Russian experiment" which will somehow—some way—dry up and blow away?

Are we still pitching pennies in a wishing well and trusting that the people of Russia will rise up against their communist masters? Are we still chasing that fairy tale? Are we still thinking of communism as a lunatic fringe? As a fly-by-night doctrine of unorganized and undisciplined crackpots?

If we are, we are flirting with disaster. If we are, we are as naive as little Red Riding Hood.

In a moment of outrage, some of us have called for war with Communist Russia—the sooner the better—in vain hope that we could "get it over with" and "be done" with the menace of communism. But the blunt truth is that Russia could be reduced to rubble, and that wouldn't destroy international communism. We should know by this time that war won't blot out communism.

And raging against communism is juvenile and futile. We have raked the dictionary for epithets and invectives against communism, but we still have communism. Invectives and epithets don't even ruffle communism's feathers.

War talk and hysteria are more than fallacious answers to communism. They are dangerous answers; they settle nothing; they are grist for the communist propaganda mill. They give powerful weapons into the hands of the communists to turn against us.

What can we do about it?

Should Acquire Knowledge of Communism

The very first thing we need to do is to acquire all the knowledge we can about communism. That first step is basic to all others. In any kind of contest, there is great advantage in knowing all one can about one's competitor, his strong points and his weak points. That is true as between individuals; it is true as between nations, and it is even more emphatically true as between conflicting ideologies.

You in education know better than most of us how true that is. When you go at a problem, you hunt for all the facts, line them up, add them up, strain them through the colander of candor. You don't let facts truckle to preconceptions or pet prejudices. And you don't let blind emotionalism obscure them.

We know so little about communism, and we need to know so much. We need to know how communism is planted and how it takes root in the minds of men—why men turn to communism.

We have been inclined to lump communists in one all-embracing category and blind ourselves to the clear evidence on every hand that there are many reasons why men turn communist.

The communist strategist knows this well, and trades upon the susceptibilities of different kinds of people with widely varying appeals. We must recognize that fact before we can get answers to questions such as these:

Why, for instance, should any Swiss be a communist, when Switzerland's democracy has been a vigorous, going force for 300 years, and the Swiss have lived in economic and political order, in peace and in relative prosperity? But there are communists in Switzerland.

Why should a Swede—a citizen of the great "middle-way" nation—turn communist? But there are Swedish communists.

And above all else, why should an American—living in the most favored, prosperous country in the world—become a communist? But we have American communists.

The very existence of communists in these countries tells us that communism is no longer just an appeal to the workers of the world to unite because they have nothing to lose but their chains.

It has outgrown such swaddling siren songs. It still uses all its old appeals, but today it bids boldly for the intellectual, the disgruntled, the credulous and the cultured—as well as the hungry, the poor and the miserable.

Types of Communists

Broadly speaking, there are at least five types of communists, and perhaps each type could have various subdivisions.

First, there is the Lenin type of communist. These are the doctrinaires, the revolutionists, the fanatics. They are willing to take any risk—any chance—to gain their ends. Such are the men who rule Russia—the members of the Politburo, their commissars and lesser party leaders — their camp

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NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The election of Ernest H. Meili as a director of the **J. Henry Schroder Banking Corp. of New York,** was announced on Dec. 14. Mr. Meili, who has been with

Ernest H. Meili **P. C. A. Carpenter**

Schroder Bank since its inception in 1923, is the Senior Credit Officer of the bank. At the same time, Peter C. A. Carpenter and R. Canon Clements, Assistant Vice-Presidents of the **J. Henry Schroder Banking Corp.** and **Schroder Trust Co.,** were elected Vice-Presidents, and Edmund Bartlett, formerly Assistant Treasurer, was elected Assistant Vice-President of both banks.

* * *

George Whitney, President of **J. P. Morgan & Co. Incorporated,** 23 Wall Street, New York City, announced that, at a meeting of the board of directors Henry C. Alexander was elected Executive Vice-President.

* * *

Harvey D. Gibson, President of **Manufacturers Trust Company of New York** announced the approval on Dec. 15 by the board of directors of the Trust company of the payment of a stock dividend, payable Jan. 22 to stockholders of record at the close of business Dec. 22. In his letter to the stockholders, Mr. Gibson also announces the change in the date of the annual meeting from the second Wednesday in January to the third Wednesday as well as a change of future quarterly dividend payment dates to the 15th of the month following the close of each quarterly period. The letter also states that in the opinion of the management, from present indications the existing dividend rate of $2.40 per share heretofore paid can be maintained on the greater number of shares which will be outstanding after the payment of the stock dividend. In his advices to the stockholders incident to the coming stockholders' meeting, Mr. Gibson says in part:

"In addition to the usual election of directors there will be presented to the meeting a proposal to approve an amendment to the certificate of incorporation of the company increasing the authorized capital stock from $41,250,000, represented by 2,062,500 shares, to $45,000,000, represented by 2,250,000 shares; the additional 187,500 shares, par value $20 per share, so authorized to be issued to stockholders as a stock dividend at the rate of one share for each 11 shares held. On Dec. 15, 1948, the board of directors declared such stock dividend subject to approval by stockholders and the filing of the necessary amendment to the certificate of incorporation, increasing the authorized capital stock. This proposal will come before stockholders for action at the annual meeting Jan. 19."

* * *

N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York,** announces the election of Robert G. Goelet to the Advisory Board of the 46th Street and Madison Avenue office of the bank. Mr. Goelet is the oldest son of the late Robert Walton Goelet, a director of the bank for many years. He is a Trustee of his father's estate and is a director of the City Investing Company.

* * *

Floyd W. Jefferson, Sr., President of Iselin-Jefferson Co., Inc., has been elected to the Advisory Board of the 320 Broadway office of the Chemical Bank & Trust Company according to an announcement by Mr. Jackson. Mr. Jefferson is also Chairman of the Board of Fitzgerald Mills Corp. besides being identified with the management of various other cotton organizations. He is also President of the New York Board of Trade and a past President of Textile Export Association of the United States.

* * *

Charles S. McVeigh, senior partner of the law firm of Morris & McVeigh, has been elected Chairman of the Board of Directors of **Fulton Trust Company of New York.** Mr. McVeigh and the late Lewis Spencer Morris, Chairman of the Board of Fulton Trust Company from March, 1924 to November, 1944, formed Morris & McVeigh in 1915. Mr. McVeigh became associated with the Trust company, through this connection, more than 30 years ago. The new board Chairman attended the University of Virginia, graduating in 1907 with A.B. and LL.B. degrees. He started law practice in New York with the firm of Winthrop & Stimson. He is a trustee of New York University — Bellevue Medical Center, a director of Globe & Rutgers Fire Insurance Co. and a member of the board of directors of Frederick Loeser & Co.

Charles S. McVeigh

* * *

DeCoursey Fales, President of **The Bank for Savings in the City of New York,** announces the appointment of two new officers at the December meeting of the board, effective Jan. 1. William J. Clark to be Assistant Secretary of the board and Felix S. Wassmann as an Assistant Secretary of the bank. Mr. Clark has been in the employ of the bank since 1941 as secretary to the President. Mr. Wassmann is in the Bond Department and joined the bank in 1932.

* * *

Henry Bruere, President of **The Bowery Savings Bank,** and Harris Dunn, President of the **North River Savings Bank** both of **New York** announced on Dec. 20 the forthcoming merger of their two institutions. The Superintendent of Banks has given his consent as required by law, and the boards of the two banks will meet shortly to ratify and fix an effective date of the merger. The Bowery Savings Bank was founded in 1834 and has deposits of $670,000,000 owned by 388,500 depositors. The North River was founded in 1866 and has $106,000,000 of deposits owned by 101,500 depositors. The combined institutions will have deposits in excess of $777,000,000 and more than 490,000 depositors. The Boards of Trustees of the two

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IBA President Scores Attacks on Wall Street

By HAL H. DEWAR*

President, Investment Bankers Association of America

Partner, Dewar, Robertson & Pancoast, San Antonio, Texas

Hal H. Dewar, in inaugural address, says it is high time President of the United States should know Wall Street is not symbolic of investment industry, and it is Main Street where securities go. Urges an objective analysis of place of investment banking in nation's economy and stresses importance of venture capital. Points to loss of profits due to competitive bidding requirements and dearth of equity financing.

Hal Dewar, Incoming IBA President, Addressing Convention

The honor of being chosen for this office is one that I can share only in part. I feel that it is primarily a recognition of the growing importance of our Southwest Empire. So, as a member of that community, and not just an individual, I am very grateful.

I have made my first and last Texan plug, but I do want to point out as evidence of the non-political character of this Group that it saw fit to nominate a Texan for this office at a time when everything pointed to a sweeping Republican victory in the pending national elections.

May I add here that many Texans as well as the many dealers throughout the nation who are on the investment firing line have regretted Mr. Truman's references in his campaign to this business as "Wall Street." It is high time that the President of the United States should know that Wall Street is not symbolic of our industry. It is Main Street where securities must go if we are to continue a free economy.

Before discussing the topics I have in mind, I should like to state my personal feelings about the Anti-Trust suit. Last year, Julien Collins said in entering his 7th year on the Board that he had never seen any evidence of domination or control of the activities of the Association by any firm or group of firms. This will be my 7th year on the Board, too, and I share his feelings precisely. As I have traveled about and seen the great distributing machinery that has been set up by the investment dealers of this country, I am impressed by the spirit of independence and competition that exists everywhere.

As advisors to our customers, we say, in investments, that the only certainty is change. And yet, in many phases of our activities, there is great resistance to this only certainty. You can call this being reactionary, conservative or old-fashioned. But, whatever it is, the financial world is studded with a resistance-to-change attitude. Our investment banking business is perhaps more progressive than some others of the financial community. Still, I have seen us battle many times for an accustomed position rather than search out a new one which was not as comfortable as the first, but which made more overall sense.

This sounds like a vague generality, so I'll cite a specific example:

The Federal Securities Statutes need considerable revision and more emphasis should be placed on the rule of law rather than men in their administration. There is a thin border between regulation and control, and many of our administrative agencies need to be re-examined in that light. Still, the basic principles behind the Federal Statutes are consistent with a free society, and I think that most of the investment bankers will now agree with this. I don't have to tell you, however, what our attitude was before their enactment.

For many years, there was a glorious opportunity for the business itself to do a constructive job in putting sound statutes on the books. But we weren't thinking constructively. Our efforts in this field consisted of active resistance to Federal Blue Sky legislation. Most of us, as a matter of fact, weren't thinking of these problems one way or the other. Either position is a symptom of the negative approach.

If Federal securities legislation is right, then think what an achievement it would have been for our Association to be its protagonist. It is jobs like this that I want to see us do. It is jobs like this that we can do if we attack our problems basically and constructively.

In this connection, I want to say a word about profits. If we look at profits from the standpoint of immediate and long range, I think it might be said that we fight like mad for the former and forget the latter. Such a situation is exemplified in the tremendous amount of energy that is today going into the near profitless competitive bidding operations, whereas the great, useful and eventually profitable field of risk capital is on the back shelf.

This brings up my third topic, but before discussing it, one more word about profits. Most of you know what a Texas eighth is, but for those who don't, it is 12½ points. While this like some other stories on Texas might slightly exaggerate true conditions, we do believe that good profits make the wheels spin. Partly as a result of its defense psychology, our business today is working for ridiculously low profits. John Clarke calls it "cheap Chinese labor."

This has meant that many of the ablest in the business are engaging in outside activities in order to get more proper compensation for their abilities. Here, too, is another reason for the lack of attention to the risk capital problem.

The whole question of venture capital is another example of our negative approach. In this manner, we are aiding and abetting the "riskless economy" which Cliff Folger spoke about so eloquently in his terms as President. Three years ago, I wrote an article concerning the capital strike which, in more subtle ways, is as crippling as labor strikes. This strike is still in existence. Here is ideal ground for constructive thinking and work on the part of the investment banker—each and every one of us.

Some are actively engaged in such work. One of the major phases of the problem is the tax angle, and I don't need to tell you about the self-sacrificing work of the Courts brothers in this field. But there are other phases of the problem which need the full energies of our investment machinery. To put it bluntly, we need more door-bell ringers, and fewer order takers and competitive bidders. This lies at the heart of our profit problem. In the larger scheme the taking of business risks lies at the heart of a free society. There is no more effective stimulus to collectivism than the drying up of the springs of risk capital.

The national apathy in regard to this vital question is perhaps cultivated by the comforting feeling that we are saving a substantial portion of our income. This is dangerous thinking because it is what we do with these savings that really counts.

We have gone overboard in institutionalizing them. This is a natural result of the almost pathological desire for security which was brought into our economy by the great depression and, unfortunately, nurtured by the New Deal philosophy. This craze for security, if not tempered, can eventually destroy the free enterprise system. All of you know

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*Inaugural address of Mr. Dewar at the 37th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 10, 1948.

The Outlook for the Capital Market

By DR. MARCUS NADLER*
Professor of Finance New York University

Dr. Nadler refers to large current demand for new capital and predicts, as long as economy remains competitive and new inventions are made and new improvements perfected, demand will expand. Stresses lack of equity capital and sees solution in tax changes and removal of stock margin requirements.

An active capital market and a steady flow of capital to industry for modernization and enlargement of productive facilities are paramount requisites for a dynamic economy and a high level of business activity. One of the major reasons for the prosperity of the post-war period has been the large capital expenditures of industry, which amounted to $6,630 million in 1945, $12,040 million in 1946, $16,180 million in 1947, and are estimated at $18,500 million for 1948. In fact, a high level of business activity, employment and national income is to a large extent dependent on a satisfactory balance between the production of capital goods, including housing and commercial and industrial construction, and that of consumer goods.

Dr. Marcus Nadler

During the depression of the '30's too much reliance was placed on the theory that the economy of the United States was already matured, and that the need for capital expenditures was therefore not as great as formerly. Primary emphasis was placed on the necessity for increasing consumption. The result was that, in spite of the large expenditures by the Federal Government for recovery and relief, unemployment still remained high and the standard of living did not go up. The standard of living of a nation is determined not by the amount of disposable income expressed in terms of money but rather by the supply of goods and services produced and made available for consumption. The production of goods and the rendering of services create the spending power which enables the population to absorb the goods and services produced. Looked at from this point of view, the demand for capital goods, and hence for capital, is limited only by the availability of labor, raw materials and productive facilities.

*Talk by Dr. Marcus Nadler before the Investment Bankers Association, Dec. 9, 1948, Hollywood, Florida.

The process of capital formation is both productive and destructive at the same time. New basic inventions create new values but often destroy old ones. Every new machine that increases the productivity of its operator or the quality of the product hastens the obsolescence of older machines. In a free, competitive economic society this process is continuous. This is not the case in countries where the government has a monopoly over production or in countries where the cartel system protects the high-cost producer at the expense of the consuming public. But even in a competitive society the process of replacement and modernization of older machinery is often retarded by featherbedding rules of unions or by government regulations.

The high standard of living of the people of the United States is based on high productivity of equipment and labor, which in turn has made possible the output of commodities at a relatively low price in spite of high wages. So long as productivity is increasing, the standard of living is bound to increase, since not only will more commodities be produced but the market for them will broaden.

Modernization, replacement and plant expansion can take place only if there is an adequate supply of capital at the disposal of industry. If this supply dries up, for one reason or another, the process comes to an end, with definitely adverse effects on economic activity, employment and the standard of living.

The Demand for Capital

The American economy is in a constant state of flux created by the inventive genius of the people and by the willingness of consumers to accept new commodities and services and to discard old ones. This gives rise to a continuous demand for new capital, supplementing that created by replacement and expansion needs. The inventions of the last few years alone should assure a strong demand for capital for some time to come.

At the present time the demand for capital is particularly large For example, large amounts of capital will have to be spent by the utilities to meet the increased demand for power. The construction of plants to liquefy coal and shale could undoubtedly absorb billions of dollars. A recent survey by the American Gas Association indicated that new capital requirements of the gas utility industry alone may amount to over $3 billion during the five-year period 1948-52, or about 55% of the present investment in the industry. The demand for capital by public bodies for roads, hospitals, schools and other public works staggers the imagination. The same can be said with even greater emphasis as regards the need for new housing, as well as the modernization of existing dwellings.

Assuming more stable international political conditions, the demand for American capital and and capital goods from abroad is bound to be very large indeed. The United States today is the only large country capable of exporting capital and capital goods on a large scale. With the return of more normal conditions, therefore, direct investments by American concerns and capital flotations by foreign countries in this country are bound to increase.

It is fairly certain that the International Bank for Reconstruction and Development will offer new securities sometime in the future. The obligations of the Bank are of high quality for they rest to a large extent on the good faith and credit of the United States, which is the largest stockholder. The fluctuation of these bonds during the past year was due primarily to their being new and the fact that some investors were not familiar with the security underlying the bonds.

One may therefore conclude that, so long as the American economy remains freely competitive and new inventions are made and new improvements are perfected, the demand for capital will in all likelihood expand rather than decline.

The Supply of Capital

The supply of capital used by industry is derived from two main sources, which may be classified as internal and external. The internal supply of capital represents the plowing back of earnings by corporations. It also represents the utilization of depreciation and depletion funds. External sources consist primarily of the sale of securities — bonds or equities — and bank loans. During the last few years reinvested earnings constituted the principal source of new capital for corporations. Undistributed profits of non-financial corporations amount to $2,500 million in 1929, $1,300 million in 1939, $6,800 million in 1946, and $10,600 million in 1947, while the figure for 1948 in all probability will be still larger. The June, 1948, Federal Reserve Bulletin contained a table giving estimated principal uses and sources of corporate funds during 1946-47. (See Appendix I.)

According to these figures, in 1947 funds retained from operations constituted 54% of total funds used by corporations for plant and equipment expenditures, inventory accumulation, and other purposes. In 1947 nonfinancial corporations paid out in dividends 40% of their total earnings; in 1946, 50%; and in 1929, 65%. The retention of earnings by corporations has enabled them to finance a considerable part of their needs without recourse to borowing or the sale of securities. Since the plowing back of earnings today constitutes the principal source of capital for expansion. It is evident that any measures taken by Congress that reduce profits, such as the imposition of an excess profits tax or the raising of the ordinary tax rates on corporations, will reduce the supply of money available for capital expenditures. This, in turn, is bound to have an adverse effect not only on business activity but, in the long run, on the revenues of the government as well.

External Sources of Capital

External sources may be either in the form of common or preferred stock or in the form of long-term and short-term bonds and notes, as well as loans from commercial banks. During the last few years, as may be seen from Appendix II, corporations relied to a considerable extent on bonded indebtedness to meet their capital requirements from external sources.

The percentage of common stock in relationship to total new capital raised by corporations has tended to decrease in recent years and is now rather small. If one includes in the total the increased bank indebtedness of corporations, the proportion becomes even much smaller. In some cases, particularly as regards term loans, bank borrowing must certainly be considered long-term capital indebtedness.

There does not seem to be any shortage of capital seeking an outlet in bonds mortgages or notes. The sources of capital have, however, undergone a considerable change, in that the importance of institutional investors has increased whereas that of individual investors has declined sharply. Whereas during the '20's most business done by investment and brokerage houses was with individuals, at the present time the volume of securities sold to individuals is only a small percentage of the total amount sold. By far the greater part is absorbed by institutional investors, notably life insurance companies. The supply of funds at the disposal of these institutions is bound to increase, chiefly because the volume of life insurance will continue to go up while the adoption of pen-

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Investment Banking and the Future

By JULIEN H. COLLINS*
Retiring President, Investment Bankers Association of America
President, Julien Collins & Company

In presidential address to Investment Bankers Association, Mr. Collins reviews developments in the Association and in investment banking. Though stating financial community has not been heartened by results of November election, Mr. Collins notes as a factor of strength that "all Republicans are not conservative nor are all Democrats liberal." Describes progress of anti-trust suit which is being contested by the Association, and reviews progress and effects of competitive bidding. Says outlook for business has been dimmed by prospect of higher taxes, and notes current socialistic tendencies. Urges more aggressive advertising and merchandizing by investment banking business.

It has been a long established custom to present at this time a "State of the Union" message on Association activities. I plan to depart from this practice today, however, because you will have full reports from our committees covering their separate fields, and I will, therefore, comment on only a few Association matters which may not be fully reported elsewhere. Following this, I will discuss some of the problems of our business and some of the things which concern us as citizens.

Julien H. Collins

It has been a great privilege, as well as a great pleasure, to have served as your President during the past year; and I hope that I have been able to carry forward the work of the Association in your interest and in the tradition of my predecessors. It has occupied much of my time, even more of it than I had anticipated, but certainly from my point of view it has been time well spent.

Following another custom established by my predecessors, our travels began early in February, with a trip to the Pacific Northwest and to California. With Alden Little and Murray Hanson as traveling companions, I have had the pleasure of visting our members in 32 cities and of making as many appearances before Group meetings and other gatherings which were assembled to discuss various aspects of our business. Our travels included almost every section of the country and two trips to Canada as well.

We have been entertained at every stop in the best IBA tradition, and I thank you again for your hospitality and your thoughtfulness.

Not only have we visited almost every Group in the Association, but, in addition, it has been my privilege to attend meetings of other representative national associations, including the annual convention of the Investment Dealers Association of Canada which was held at Murray Bay, Quebec.

Accompanied by Murray Hanson, I attended the meeting of the National Association of Securities Administrators in Portland Oregon, the Conference of National Organizations in Chicago, the Board of Governors meeting of the World Bank and Fund in Washington, and a special meeting of our newly formed Mexican Committee in New York; and I believe I have accepted every invitation I have received to address college, civic, and other groups in an endeavor to bring about a better understanding of our business.

*An address by Mr. Collins at Thirty-Seventh Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 6, 1948.

I have had occasion also to confer with the Association of Stock Exchange Firms, the American Bankers Association, the National Association of Securities Dealers, and, with the Executive Committee, I have met with the members of the Securities and Exchange Commission.

The Board of Governors has had two meetings during the past year, the first of which was held at Rye, New York, early in January and the second at White Sulphur Springs, late last May.

The Education Committee this year, under the chairmanship of John Fennelly of Glore, Forgan & Co., has provided a most useful service to our membership; and I would urge that our efforts to attract young men to this business and to train them in its fundamentals be continued permanently.

Under the direction of Nathan D. McClure of Harriman, Ripley & Co., Inc., we can now report the completion of our project for the scientific selection of personnel; and this, too, will be a valuable contribution to our membership.

A New Committee

Because of the growing importance of the aviation industry, a new committee on aviation has been appointed under the chairmanship of former Assistant Secretary of Commerce, William A. M. Burden of Smith, Barney & Co., who will report for the first time at this convention.

I recommend your study and consideration of our committee reports, and I acknowledge here my great appreciation for the work done by the chairmen and members of the various committees and for the cooperation of our staff, both in Chicago and in Washington.

What has been accomplished for our members in the field of State Legislation is largely the result of efforts made by Arthur G. Davis, who is now in his 22nd year of loyal and devoted service to the Association.

When Murray Hanson and I attended the annual convention of the State Securities Commissioners in Portland, Oregon, last August we learned again, first hand, of the universal respect and affection which the state commissioners have for Arthur Davis as a result of his work with these men over the years.

He is well known and his opinion is respected wherever there are discussions of laws affecting the sale of securities in the various states. He has now decided to retire from active full-time participation in this work, but he has been persuaded to continue with the Association in an advisory capacity. We wish him many more happy and fruitful years as we look forward to his continued advice and counsel.

Not Heartened by Election

Our conventions in every national election year have been held shortly after the ballots were counted without knowing in advance whether our meeting would be one of celebration or deliberation, or both.

For most of our members this year, it is one of deliberation, for it cannot be said that most people in the financial community have been heartened by the unexpected results. I hope you will have the patience to consider a few more brief observations on the vote of Nov. 2.

Having lived through both Republican and Democratic administration of our national affairs, I am impressed with the realization that never in my adult life has there been a period during which we have been entirely free from worry or concern about the future. Sometimes our problems are national, sometimes international, sometimes both, but we always have problems.

Then, too, we should remember that all Republicans are not conservative nor are all Democrats liberal. This is a factor of strength, not weakness, and one which will become more and more apparent during the 81st Congress.

It is fortunate that the President and the Congress are of the same party. It is fortunate also that we now have an endorsement of our foreign policy which has been bi-partisan, and it is the kind of vote of confidence which people abroad are best able to understand.

We may expect labor to remain politically persuasive. We trust they will adhere to the accepted responsibilities of American citizenship.

Fear has been expressed that there will be new obstacles to orderly and profitable business. Yet, we should be reminded that the United States is the only really prosperous and healthy large nation in the world today.

As stated by a newspaper friend of mine in Tuscon, Ariz., recently: "Over a long period, we may continue the trend toward a social welfare state as distinguished from a socialist state, the distinction being that the social welfare state is one in which special consideration is given to the goose that lays the golden eggs, whereas a socialist state is one that proposes to lay the eggs itself.

And one more observation, quoted from the London "Times." "Socialism is competition without prizes, boredom without hope, war without victory and statistics without end. It takes the heart out of young men . . . and it is above all morally destructive."

If we are to face new hardships and difficulties in the years immediately ahead, they may pre-

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Holds Status of Rails Sound, but Outlook Dubious

Percy M. Stewart, of IBA Railroad Securities Committee, calls attention to delays in granting rate increases to offset higher wage payments. Holds this puts carriers in adverse situation, and most railroads will find increasing difficulty in financing except at higher interest rates. Notes trend toward reduced traffic, which if continued, may cause net income deficits. However, with working capital positions built up and absence of heavy capital needs, rails as a whole have few pressing financial problems. Reports rail statistical data.

Percy M. Stewart

The Railroad Securities Committee of the Investment Bankers Association of America, under the Chairmanship of Percy M. Stewart, partner of Kuhn, Loeb & Co., New York City, in reporting developments of current year to the 37th Annual Convention at Hollywood, Fla., stressed the squeeze on the railroads resulting from retroactive wage increases on one side, and delays of the Interstate Commerce Commission in granting compensating rate increases. The Committee pointed out, however, because of improved working capital positions and absence of pressing capital needs, the condition of the rails, generally, is sound. Following is the full text of the Committee's report:

Since the two interim reports of your Committee submitted in January and May of this year were on the hopeful side, it is pleasing to be able at this time to report that the railroads have had favorable earnings to date and the year's complete results should bear out the optimism previously expressed.

The best estimate seems to indicate that the 1948 net earnings for Class I roads will approximate $650 million as compared with $480 million for 1947 and $287 million for 1946.

This year the railroads will spend an estimated $1,260 million on road and equipment, or some $400 million above the 1947 total, with equipment expenditures accounting for $940 million as against $560 million in 1947. The maintenance of this high level of capital expenditures can only continue with present satisfactory earnings.

Effective Oct. 16 last, the railroads reached an agreement with the Brotherhood of Railroad Conductors and Trainmen in settlement of their demand for a 25% boost in wages on the basis of a 10-cent per hour increase. A settlement with representatives of the three other operating unions was finally reached on the same basis early in November. Negotiations with representatives of 16 non-operating unions have collapsed, however, and the controversy has been referred to a fact-finding board. If the 10 cents per hour increase is applied to all railroad workers, it will increase railroad operating cost by $360 million annually.

Despite the successive increases in freight rates granted in December, 1947 and again in April, 1948, the roads felt compelled on Oct. 1 last to ask for a further 8% increase, which request immediately following the new wage advance was increased to a total of 13%. This second request was augmented by a further plea that the 8% rate increase be put into effect on short notice. Unfortunately, the Interstate Commerce Commission refused the request for a quick rise of 8% and opened a hearing on Nov. 30.

It is obvious that to the extent that rate increases are not put into effect until months after a retroactive wage increase is granted, the loss must be shouldered by the roads. In the current instance, this will amount to $30 million monthly. We all know how badly the railroads' earnings position was handicapped in 1946 by the long delay in granting rate increases. In view of the promptness with which the raises sought earlier in the year were granted, your Committee hopes we are not now to have a repetition of the 1946 delay. It would seem that a sound and forward looking national policy would permit the railroads under present peak business conditions to recoup without delay the higher costs of operation.

It should be noted that although revenues for the year are considerably above 1947, carloadings are down about 3.4% in the same period. The rainy day must inevitably come, and it is not difficult, under different business conditions, to visualize a sharp decline in volume and revenues which might result in substantial deficits until such time as operating expenses can be brought in line.

The investor is well aware of all of the above. Most railroads will find increasing difficulty in financing and refinancing except at higher interest rates. An illustration of this trend could be noted in the recent offering of $40 million of C & O bonds. This was a double A rated security with a comparatively short life of 25 years, for which two bids, both for 3⅞% bonds, were submitted. The attractive offering price brought a most favorable response from all kinds of investors and this was encouraging from one viewpoint, but is clearly indicative of the high yields required to secure broad interest. It is evident, therefore, that our railroads will find it extremely difficult, if not impossible, to obtain new capital funds or refinance maturities by the issuance of non-fixed interest bearing securities such as income bonds, or by preferred and common stock issues. This is a sad commentary on their poor credit position despite present maximum volume of traffic.

It was fortunate indeed that during and immediately following the war our Class I railroads, generally, were enabled to improve their financial structures and build up strong working capital positions; hence there are now few pressing financial problems. Your Committee's concern is for the future. We again point out that the railroad industry has never been allowed to earn the 6% return contemplated under the Transportation Act of 1920. Failing a more constructive attitude on the part of regulatory authorities, any sustained business depression would bring about serious difficulties for the railroads. The situation should be currently and permanently corrected to the end that this great industry, which has proven itself to be one of our first lines of defense, should not be placed in financial danger through no fault of its own making.

Appended is a statistical review of the various phases of the industry for the current year.

Respectfully submitted,

Percy M. Stewart (Chairman); O. P. Decker; F. R. Dick; H. C. Evans; W. L. Fisher; J. S. Loomis; H. C. Morton; S. B. Payne; H. G. Smyth; H. S. Sturgis; J. W. Valentine.

RAILROADS

Statistical Data for 1948 to Date

Carloadings and Equipment—Carloadings of Class I roads for the period ended Nov. 13, 1948 decreased 3.4% from the similar period of 1947 but were 3.9% above 1946. In terms of revenue ton miles the decrease from a year ago was slightly smaller, with the Southern Region the only one to show a fractional gain. Passenger revenue miles were down around 10% from a year ago.

Although freight car deliveries continue at a high level, the monthly goal of 10,000 cars was not attained during the first 10 months of 1948, the average monthly delivery being about 8,600 cars. Old freight cars, those over 25 years of age, which account for one-third of the total owned, are apparently being scrapped in large numbers, inasmuch as the 1,752,000 freight cars owned by Class I roads on Sept. 1, 1948 are only 10,000 above the amount at the beginning of the year in the face of the large number of new cars being added. The continued replacement of steam with Diesel locomotives is apparent in results for the first 10 months of the year, when Class I roads put into service 1,159 new locomotives of which 1,062 were Diesel, compared with 676 engines in similar 1947 period (606 Diesel). The backlog of equipment requirements on Nov. 1, 1948 continues to be substantial with 102,220 freight cars on order (109,647 a year ago) and 1,630 locomotives on order (960 a year ago).

To finance purchases of all equipment including freight cars, $380 million equipment trust certificates covering 75 issues have been sold in 1948 to date, as compared with the sale of $210 million trust certificates covering 53 issues for the full year 1947.

Operating Revenues—Operating revenues of Class I roads for the first nine months of 1948 were 13% above the like period of 1947, with freight revenues showing a 15% gain and passenger revenues running about even with last year. Rate increases, however, were largely responsible for the higher freight revenues this year and also enabled passenger revenues to offset the decline in passenger traffic. Total operating revenues for the year 1948 are estimated at $9.6 billion compared with $8.7 billion for 1947.

Earnings and Expenses—While increased revenues this year to date were partly translated into increased earnings so that aggregate net income of Class I roads for the first nine months of 1948 amount to $502 million compared with $317 million for the like 1947 period, it should be emphasized that the better earnings picture is largely attributable to the rate increases and not to any reduction in the operating ratio, which has continued this year at the same rate (78%) as last year. As already stated net income of Class I roads for 1948 will probably reach $650 million as compared with $480 million in 1947 and $287 million in 1946.

Financing—New capital issues by railroads, all in funded debt, show a substantial increase this year, the first 10 months total being $461,117,000 as against $183,390,000 in the like 1947 period. The sale of equipment trust certificates has accounted for $380 million of this total. Mortgage and collateral trust bond issues make up the balance. The institutional interest in the latter issues has been unenthusiastic for the most part.

Net Working Capital and Capital Expenditures — Notwithstanding that gross capital expenditures for road and equipment for 1948 are expected to reach a record high of $1,260 million, far in excess of the previous 1923 peak of $1,059 million, and comparing with $847 million for the year 1947, there has been no impairment in the net working capital position which amounted to $1,619 million on Aug. 31, 1948 as against $1,624 million at beginning of year.

Legislation—Since our interim report submitted at the board meeting on May 25, the Bulwinkle Bill became law over a presidential veto. The passage of this bill, which would enable railroads to make agreements with immunity under the anti-trust laws provided such agreements are approved by the I.C.C., tends to minimize to a large degree the importance of the anti-trust suits against the railroads, now being tried. However, since the recent election there has already been some agitation to repeal the Act. It is to be hoped that the new Congress takes no such action.

A few railroads are already endeavoring to avail themselves of the Reed-Mahaffie Act, which important legislation, referred to in our interim report early in the year, permits the voluntary recapitalization of railroads in financial difficulties provided that the plans are approved by the I.C.C. and by at least 75% of the amount outstanding of each class of securities affected thereby (excluding equipment trust certificates). As to voluntary debt readjustment plans, I.C.C. examiners have recommended to the Commission approval of the Lehigh Valley plan and that Central Railroad of New Jersey be permitted to submit a voluntary plan to its security holders. The Boston & Maine and Maine Central are proceeding with their stock recapitalization plans, and the Missouri-Kansas-Texas is considering a revision of its capital structure under the Mahaffie Act.

Sees Bond Pegging Source of Inflation

Governmental Securities Committee, headed by Delmont K. Pfeffer, reviews Treasury and Federal Reserve efforts to hold government securities at par. Calls attention to heavy Federal Reserve government bond purchases to keep Treasury's long-term interest rate at 2½% and its effect on inflation. Sees no adverse effect in permitting bonds to recede slightly under par, but warns against major change in policy.

The Governmental Securities Committee, of which Delmont K. Pfeffer, Vice-President of The National City Bank of New York is Chairman, in its report to the 37th Annual Convention of the Investment Bankers Association of America at Hollywood, Fla., took occasion to again call attention to inflationary effects of the Federal Reserve's "defense of par," but warns against any drastic change in present fiscal policy. The full report of the Committee follows:


Delmont K. Pfeffer

The "Defense of Par"

During the past 12 months our monetary authorities have thrown $10 billion into the defense of Par. The inauguration of this policy, and its stubborn perseverance, has become the most important *fiscal* influence encouraging inflation of credit.

As reviewed in our report of 1947, until July of that year the Treasury held its 90-day bill and one-year certificate rates at wartime lows, thus encouraging banks to expand loans and extend investment maturities. Beginning in July, 1947, a controlled rise of bill and certificate rates and the concurrent record demands for bank credit exerted pressures toward higher interest rates generally. Heavier offerings of Treasury bonds began to depress the market early in the Fall, and to meet this situation the Treasury trust funds and the Federal Reserve Banks put bids in the market. They chose to hold bond prices at hastily adopted levels approximating those of mid-November, but the support was somewhat grudging and reluctant.

On Christmas Eve the Federal Reserve announced lower buying price levels for taxable issues and in fact entirely withdrew any fixed support from the partially tax exempt bonds. At the lower prices the Reserve became a "willing buyer," and has so remained through two avalanches of selling. Most of the liquidation has been of longer maturities, especially the issues not eligible for commercial banks.

The shock of the abrupt price adjustment of Dec. 24, a Federal Reserve rediscount rate increase effective Jan. 12, higher bank reserve requirements as of Feb. 27, and the heavy capital needs of utilities and industry generally, in the four months from December, 1947, to March, 1948, dumped on the authorities $5 billion Treasury bonds maturing beyond five years.

By early April the first rush of liquidation had run its course. There were some reasons—such as the abrupt drop of grain prices, a large Treasury surplus for payment of debt, and the slowing of commercial bank lending—to hope that inflationary pressures had been checked. Confidence was revived in the ability and determination of the monetary authorities to hold the line of Government bond prices at par or better.

But it soon became apparent that the check to inflation was only temporary. Business went booming along, bank loans began a seasonal rise in July, and the insurance companies were flooded with capital and mortgage loan applications and bond offerings of utilities, industries and municipalities. The stock market remained stubbornly discouraging to equity capital needs. Official concern about loan expansion was signalled by a second increase of central reserve city bank reserve requirements, effective in June. This was followed in July by a special offering of Series F and G bonds to absorb any funds accumulated by savings institutions, which offering in itself attracted some switching out of marketable bonds.

So, in July the flood of bond selling was again undammed. The perils of inflation were further emphasized by the calling of a special session of Congress in August, whose discussions and actions were almost entirely in the field of credit control. It came to be generally appreciated, that the Federal budget had definitely passed from the previous year's substantial surplus to a position of approximate balance, permitting little debt retirement at best and raising the longer term possibility of deficit financing. The $2 billion boost of all member bank reserve requirements in September under emergency powers granted by the special session of Congress intensified the pressure on bond price supports. By Nov. 1 the Reserve Banks' holdings of long bonds exceeded $9 billion, nearly all purchased since November, 1947. Support buying in October alone totaled $1¾ billion as skepticism grew and sales of Government's outran needs for reinvestment, to pile up liquid resources in cash, bills and certificates in preparation for the eventuality of a drop of bond price levels.

But the election results on Nov. 2 were immediately interpreted as lessening the likelihood of any major change in monetary policy, and the Treasury bond market was lifted by renewed buying, especially in the issues exempt from normal taxes. Selling of the long restricted bonds was checked, evidencing greater confidence in the continuance of strong support, at least until the near-term trend of business activity and capital needs can be reappraised.

This then was the situation at the time your Committee's report was prepared.

Central Bank Policy—Wartime and Postwar

Before attempting to discuss what should be done, we may profitably review the net results of past and present policies, in order to focus understanding on the basic reason for the never-ending argument, whether the Federal Reserve and Treasury should hold to, modify or abandon fixed price supports for Treasury securities.

To enable the orderly financing of the war, the Federal Reserve Banks multiplied their investment in Treasury securities tenfold, from $2¼ billion in December, 1941, to a peak of more than $24 billion in December, 1945. That was inflationary, but few questioned it in principle because a vastly greater money supply was required to finance the war.

With the coming of an uncertain peace, the grave danger of any further credit inflation stood out as public enemy number one. The first move was to take the kerosene away from the fire by using the Treasury's war loan bank deposits for the redemption of some of the Government securities owned by the commercial banks and the Federal Reserve System. That was done in an orderly fashion during 1946. Then in the first half of 1947 unexpectedly large revenue surpluses were applied to the same purpose. By the Fall of 1947 commercial banks' investments in Treasury securities were down by $20.8 billion and Federal Reserve holdings by $2.2 billion, in comparison with the end of 1945. This funding out and payment of securities held by the banking system offset most of the increase in money supply which otherwise would have resulted from the expansion during that period of credits needed by private industry.

The Argument Against Bond Price Pegging

Since late November of 1947 the deflation of money supply which might have resulted from the continued retirement of Government obligations held by the Federal Reserve and commercial banks has been nullified by the heavy official purchases of Government bonds for the purpose of holding the Treasury's long term interest rate at the maximum of 2½%. It is true that so far any great net increase of central bank investment in Treasury securities has been avoided; as long maturities were bought, shorts were sold out of the Reserve Banks or redeemed. (With little change in total holdings, the Reserve Banks' portfolio of Treasury securities has swung in the last year from 3% to nearly 40% in bonds due beyond five years.) But the fact remains that because of this policy investors in Government bonds have been able to sell readily and generally without loss, which supplies them with funds and encourages them to make business loans or other forms of private investment augmenting the supply of credit and expanding the demands for goods and services which add up to higher prices and higher living costs.

That result is the principal argument against the present policy of the Federal Reserve and Treasury. Support of Treasury bonds at fixed prices is properly criticized as being inconsistent with and subversive of the obviously sincere concern of the authorities and especially the Federal Reserve Board, about the growing danger of an ultimate crash if inflation is not checked. Specifically, the support policy is opposed first, because by supplying Federal Reserve credit in whatever volume Government bondholders choose to demand, it prevents the play of corrective forces which in the past have tightened up on credit in boom times; and second, because by holding interest rates at unwarrantedly low levels, it tends to cheat capital and especially the thrifty whose savings have built our nation, of their fair share of the production "pie." Furthermore, having prevented the rise of interest rates which would help to check credit expansion, the authorities are prone to advocate direct action to keep the cost of living down by various price controls and subsidies foreign to our traditions of private enterprise in peacetime.

Space does not permit full details of the efforts which the monetary authorities have made to offset the inflationary effects of bond price support by tightening bank reserve requirements raising the Federal Reserve's rediscount rate, and offering higher interest rates on Treasury bills and certificates. Admittedly, these moves have succeeded moderately as cautionary restraints on bank lending policies; and better yields on short term Governments have encouraged the maintenance of liquid investment positions, on the part of banks especially. But like the farmer who cut a big hole in his barn door for his cats and a little hole for the kittens, the monetary authorities are charged with nullifying their own restraints on bank loans by continuing unlimited purchases of long bonds even to astronomical totals. In effect, by these purchases Reserve credit is extended directly to capital expansion.

The Case for Continuing the Pegs

Probably the most sensible argument in favor of bond price supports is the obverse of the inflation charge just discussed. That is, if the bond price support policy should be abandoned or substantially modified, there is a risk

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Predicts Reduced Industrial Financing in '49

IBA Industrial Securities Committee, headed by Frank A. Willard, points out 1948 record of expenditures on new plant and equipment, amounting to $18.6 billion, of which bulk of funds was derived from internal sources. Notes large percentage of financing through issue of senior securities placed privately. Looks for reduced demand for new industrial financing in 1949, and refinancing a certain amount of senior capital with equity securities. Says large industrials are in sound financial condition.

The report of the Industrial Securities Committee of Investment Bankers Association of America, composed of Frank A. Willard, partner of Reynolds & Co., New York City, and 19 other members, made to the 37th Annual Convention at Hollywood, Fla., in pointing to large industrial plant expansion in current year, funds for which were obtained mainly from internal sources and senior securities, warned of reduced demand for new financing in 1949, but predicted likelihood of equity capital replacing some of existing senior securities. The complete text of the report follows:

Frank A. Willard

The lack of a major trend in security prices has characterized the year just past, very much like the preceding year. We have had a record-breaking volume of peacetime business, and record high commodity prices; however, security prices, including common stocks, as well as fixed income securities, have maintained a generally sidewise pattern. There have been many important developments which have affected the demand for both stocks and bonds within this 12-month period. Toward the end of the first half there was a strong improvement in investor confidence, based on the reduction in the income tax. Then the development of the Berlin crisis killed off this confidence and the demand for equity securities dwindled. More recently the unexpected outcome of the Presidential and Congressional elections has again caused a great deal of uncertainty about the investment outlook. One positive result of the election, so far as its investment implications are concerned, has been the revival of demand for fixed income securities on the basis of the belief that a Democratic administration means a relatively lower interest rate policy than a Republican administration would have meant.

1948 has also been a record-breaking year with regard to the volume of business expenditures for new plant and equipment. On the basis of the figures compiled by the Securities and Exchange Commission, such expenditures for 1948 will amount to $18.6 billion, as compared with $16.2 billion last year, and $5.2 billion in the prewar year of 1939. Included in these totals are expenditures by manufacturing concerns of some $8 billion in 1948, as against $7.5 billion in 1947, and a little less than $2 billion in 1939. The remainder of these expenditures is made up of outlays of enterprises in the mining, transportation, public utility and commercial fields.

We have referred to expenditures of $18.6 billion for new plant and equipment in the current year. When this figure is supplemented by certain other items of nonresidential construction and the funds necessary for inventory expansion, including a $6.4 billion increase in inventory during the year, then the outlay of funds by business enterprises mounts to the staggering sum of $33.4 billion. It has been the case for a great many years that the bulk of the funds necessary to meet business expenditures has been derived from internal sources, namely, depreciation charges and undistributed profits available after dividends. This situation has been true again during 1948, and it is estimated that these sources amounted to almost $28 billion, leaving $5 to $6 billion to be raised from outside sources. Of this amount which outside sources were called upon to supply, it is estimated that bank loans made $1.3 billion available, and the capital markets supplied $5.1 billion of new money. The increase in bank loans is only about one-third to one-half as great as the increase in 1947, while the new money supplied by the capital markets appears to be about 10% larger than the 1947 amount.

It now appears that total 1948 offering of corporate securities, including private placements, will amount to $6.1 billion for the year, as against $6.5 billion last year. It has been pointed out that the new money supplied will be about $5.1 billion compared with $4.6 billion last year, but new money supplied for industrial concerns only will be approximately $1.7 billion against $2 billion last year, a drop of about one-sixth.

Senior Securities Predominant

The bulk of the funds supplied for refunding and new money purposes by the capital market has again been derived from the sale of senior securities, which accounted for almost 90% of the total. It is rather startling to realize, since most of the recent offerings have been fixed interest-bearing securities, that the private placement of bonds and notes has been accounting for just about one-half of the total sales of such securities. SEC reports show that the proportion of corporate bond offerings privately placed has increased steadily in the past three years; private placements were 21% of the total in 1945, 39% in 1946 and 44% in 1947. In the first nine months of 1948 private placements had further jumped to 49.5% of total corporate bond offerings.

Private studies, computed on a similar but not identical basis, show clearly that the percentage of private placements in the field of industrial bonds and debentures is much higher, amounting to 80 to 85% in 1947 and the first 10 months of 1948. These figures contrast with about 15 to 20% of private placements for public utility and railroad bonds. There are two points worthy of note in this contrast. First, public utility and rail bonds are subject to competitive bidding, and by virtue of keen competition in these two fields, the sellers of public offerings have accounted for the bulk of this business. Second, within the industrial group the percentage of private placements stepped up very sharply from a little over 60% in 1945 and 1946 to the 85% figure of the past two years. It may be that a part of this recent step-up can be ascribed to the arbitrarily high prices for U. S. Government securities. In other words, if the yield on government bonds is unattractive to banks and insurance companies, there is naturally a transfer of funds from government to corporate bonds and as we know, this has actually been the case.

However, it must be recognized that while the increase in private placements may have been accelerated by the transfer of funds from government to corporate securities, the upward trend in private placements is fundamentally due to the increasing amount of individual savings in the hands of insurance institutions.

1948 Estimated Business Capital Expenditures and Sources
(Billions)

		Est. 1948 Total
Expenditures:		
Nonresidential construction		$6.5
Producers' durable equipm't		20.5
Inventory increase		6.4
		$33.4
Sources:		
Corporate profits	$33.9	
Less taxes	13.4	
Less dividends	7.5	
Undistributed profits	$13.0	13.0
Depreciation charges		11.5
Capital outlay charged to current expense		3.2
Total internal sources		$27.7
Capital Deficiency		5.7
Supplied by:		
New money—capital markets		5.1
Increase in bank loans		1.3

There is a statistical difference between the SEC series on capital expenditures and the figures used in this table for producers' durable equipment, but the trend and proportionate changes are similar. Following this brief review of the current year's financing, the big question, as always, has to do with the future. What is American business planning to spend in 1949?

Election Effects on New Capital Requirements

There is a discrepancy between the widely stated view that the election will cause a sharp curtailment of capital spending and the equally widely recognized need for continued high expenditures by public utilities, natural gas pipe lines, oil and other important industries. The answer seems to be something like this: Spending by public utilities, natural gas and the oil industry may very well continue at an extremely high rate, even though there have been some announcements indicating that high building costs represent a deterrent to spending. For example, one of the Bell Telephone subsidiaries recently revealed a 20% cut in their 1949 budget. Somewhat less stable will be the outlays by manufacturing companies, many of which had strongly indicated, prior to the election, that 1949 would see a decline in the high rate of capital spending of 1946, 1947 and 1948. It does not appear that the election has made a sweeping change in these plans. It is interesting to go from the overall nationwide economic data we have just cited to an examination of the capital budgets of some of the country's business pace-setters, such as U. S. Steel, General Motors, General Electric and Johns-Manville. They reveal a somewhat different trend from the capital spending pattern of manufacturing enterprises on a nationwide basis. A skeleton outline of their combined capital expenditures in recent years is as follows:

Combined Capital Expenditures U. S. Steel, General Motors, Johns-Manville, General Electric

	Millions	% of Total U.S. Manufacturing
1948 est.	$588	7.3%
1947	615	8.2%
1946	675	11.4%
1945	246	7.7%
1939	121	6.3%

These leading companies have been so farsighted and capably advised that they utilized available resources and their fund-raising ability to move rapidly, once the war was over, in expanding productive facilities to meet record peacetime needs for goods. Their expenditures climbed so rapidly that their combined total reached its peak in 1946, while the balance of U. S. manufacturing enterprises have been two years behind in reaching a comparable total. One of the four companies, U. S. Steel, did spend more in 1948 than in 1946 or 1947.

Having in mind the farsightedness of these early installations of huge new capital facilities, it is noteworthy that even before election this year Johns-Manville announced that "about 90% of the expansion, replacement, cost-reduction and improvement program which was inaugurated in September, 1945, has now been completed and production utilizing most of the new plants and additional facilities is under way."

General Motors also, in its annual report, released March, 1948, said: "The postwar rehabilitation and modernization program was brought to a virtual completion during the year 1947, about two and one-half years after work actually got under way."

Companies such as these, which made an early start on their postwar spending programs, are apparently scheduled to cut back their outlays by one-third or more in 1949, as compared with 1948. Additional concerns which have already witnessed a down-turn in demand for their products will cut back more sharply. And yet manufacturers, as a group, are not

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Reveals Heavy Utility Debt Financing

Robert Mason, Chairman of IBA Public Service Securities Committee, reports new high record in new utilities issues, bulk of which took form of bonds, debentures and notes sold under competitive bidding. A. T. & T. System financing comprised 37½% of total debt issues sold competitively, while an increasing number of bond offerings have been placed privately with insurance companies.

Robert Mason

In reporting to the Thirty-Seventh Annual Convention of the Investment Bankers Association of America at Hollywood, Fla., Robert Mason, Vice-President of the Central Republic Company of Chicago and New York, as Chairman of the Public Services Securities Committee, called attention to heavy new financing by utilities in 1948, largely through issue of bonds, debentures and notes. Of total new financing approximating $3 billion, it was pointed out, more than 86.3% represented debt and about 7% constituted preferred stocks. It was noted that all American Telephone and Telegraph System financing, which constituted more than one-quarter of the total, was in form of long-term debt securities. Competitive bidding in placing new issues was predominant, though private placement with insurance companies is still on the increase.

The text of the Report of the Committee follows:

Financing by public utility companies in 1948 has set new high records. In the first 11 months of this year utility companies through sales of securities publicly, privately and to their stockholders have raised an aggregate of $2½ billion. Foreseeable financing this month will bring the total for the full year close to the $3 billion mark. With major exceptions, all of this is new money financing.

Of the financing done in the first 11 months, over two billion one hundred fifty million dollars, or 86.3%, took the form of bonds, debentures or notes, in other words debt financing. Approximately $175 million, or 7.1% of the total, was raised through the sale of preferred stocks and the remaining $164 million, or only 6.6% of the total, through sale of common stocks.

Most of the debt financing was through sales at competitive bidding, less than $48 million principal amount of debt issues going on a negotiated basis. There was no negotiated utility debt issue offered between late March and the end of November. An increasing amount of utility debt financing has been done through private placement, principally with insurance companies. Available records indicate 62 issues so placed, accounting for approximately 12% of financing in the first 11 months of the year. During the same period 87 issues were sold at competitive bidding and four through negotiation.

Of the preferred stock financing seven issues went competitively aggregating some $67 million, 17 aggregating $93 million were negotiated, five for a total of $4 million were offered to stockholders and a $1 million issue was placed with an insurance company. In the common stock field, only three issues totaling $14½ million at offering prices were sold competitively, while 10 with an offering value aggregating $28½ million were negotiated and 23 aggregating $121 million were offered to stockholders, in most cases with underwriting standby.

Companies in the American Telephone & Telegraph System accounted for over 27½% of all of the public utility financing in the first 11 months and with the sale this week of the $150 million A. T. & T. debentures the percentage for the year as a whole, will approximate this figure. All of the Bell System financing has been in the form of long term debt and Bell System securities accounted for 37½% of all debt financing sold competitively.

Excluding Bell System financing, the balance of the securities sold by the utilities in the first 11 months were 81% in the form of debt securities, 10% preferreds and 9% commons. The figures which have been given do not include bank loans or other temporary borrowings, including borrowings from holding companies. If such were added, further emphasis would be given to the fact that the utilities in their financing activities this year have again leaned heavily on borrowing and have been far from the supposedly ideal financing ratios of 50% debt, 25% preferred and 25% common. For the most part this course of action has been due not only to relatively low money rates, but more particularly to the generally unsatisfactory condition of the preferred stock market through most of the year and the relatively low ratio of common stock prices to earnings and dividends. Many utility companies have already reached, and many others are approaching, the point where additional debt financing must be accompanied by additional equity financing in order to preserve proper ratios in the capital structures. We will speak further of this matter later in the report.

In this Committee's report at the Spring meeting we said that we thought it would be of interest to submit figures on spreads since this is a subject of much discussion in our industry. Therefore, a few more statistics on this subject. The average gross spread of the one billion eight hundred million of debt financing sold competitively in the 11 months ended Nov. 30 was $5.067 per bond and the weighted average gross spread $4.484 per bond. If we exclude from the computation of the Consolidated Edison and Peoples Gas convertible debentures, where a fee was paid to the issuer for the privilege of underwriting, then the weighted average gross spread was $4.676 per bond. It is interesting to note that the gross spread was generally wider on the Telephone deals than on the average of all of the deals, such average being $5.191 for the 10 issues sold competitively by companies in the Bell System.

In preferred stocks the seven issues sold at competitive bidding produced an average gross spread of only $1.76 per share and a weighted gross spread of only $1.55 per share. This result, however, was largely due to the fact that on three of the issues the successful group offered the stocks below prices they had contemplated, for market reasons. The 17 negotiated preferred deals produced an average gross spread of $4.57 per share and a weighted gross spread of $4.09 per share. There were included in such deals several issues of junior convertible preferreds on which a wider gross spread prevailed than has recently been average for utility preferreds.

The three common stock issues sold competitively showed an average gross spread of 6.87% of the respective offering prices while the 10 negotiated common stock deals showed an average gross spread of 7.63% of the respective offering prices. The latter percentage was influenced by inclusion in the 10 deals of two issues in the $7 to $8 class where the spread percentage-wise ran 11 to 12%. Information concerning compensation paid on privately-placed deals is not available. On issues offered to stockholders, which were underwritten, compensation to the underwriters varied substantially and was generally dependent on the number of shares taken up by the underwriters. An average of such spreads would be meaningless.

Your Committee has been asked to call to the attention of all of you interested in public utilities a booklet recently published by the Federal Power Commission in cooperation with the National Association of Railroad and Utility Commissioners. Copies of this booklet may be obtained at a cost of $1.00 each from the Federal Power Commission, Washington 25, D. C. It is a handy reference book for information concerning State Commission jurisdiction over and regulation of electric and gas utilities.

During the past year there have been an increasing number of utility bond issues placed privately with insurance companies, either directly by the issuing utilities or through investment bankers. In most cases the bonds constituted additional issuances under existing mortgages. It is impossible to tell whether or not the issuing companies obtained a better net price for their bonds than they would have if the bonds had been offered and sold publicly, but certainly in the latter months of the year there has been a trend on the part of insurance companies to pay less for bonds purchased privately than for equivalent bonds purchased on public offerings. Many of these sales probably would have been made publicly if the issuing utilities could have avoided the long and costly registration process. The suggestion is made, therefore, that in cases where additional bonds are issued under an indenture under which a registered issue has been sold within a limited period of time, say three years, the SEC work out a simplified form for registration of the additional bonds. The nature of the utility business is such that it seems to your Committee that a simple supplement to the previous prospectus, setting forth more recent earnings and balance sheet figures and data as to property additions, rate changes, etc., should suffice. If such a simplified form could be made available to the utilities, additional issuances under existing mortgages would seem more likely to come into the public market. Under the present procedure many of those who purchased part of the registered issue, particularly the smaller insurance companies, do not have an opportunity to purchase the additional bonds, and, as the market has been going the last several months, do not get the

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Reports High Record of Municipal Issues

IBA Municipal Securities Committee headed by Emil C. Williams, notes, despite increased output, market for municipals has been relatively steady but with rising yield tendency. Calls attention to work of special Committee on Revenue Bonds in bringing about appreciation merits of these issues and in developing uniform patterns. Explains status of bills in Congress regarding water pollution and tidelands ownership.

In its report to the 37th Annual Convention of the Investment Bankers Association of America at Hollywood, Fla., the Municipal Securities Committee, of which Emil C. Williams, Vice-President of the Chemical Bank & Trust Co. of New York City is Chairman, stated that for the second consecutive year new issues of long-term municipal bonds have set a record high, with several individual state issues reaching above $100 million, and with authorizations in the recent election totalling about $838 million. These current and prospective authorizations have been accompanied by up and down swings in the municipal market, with a rising yield tendency.

Emil C. Williams

The text of the Committee's report follows:

For the second consecutive year, the volume of new issues of long-term municipal securities has set an all time high. In 1947 the amount was about $2,354,000,000. That was then the all time high—the previous high being about $1,500,000,000 in 1940. During the first 10 months of this year the amount of such new issues reached the figure of approximately $2,638,000,000 with two months remaining to be added. Conservatively, the total for the calendar year 1948 will exceed the 1947 figure by $500,000,000.

There were three single issues during 1948 of over $100,000,000. They were the $300,000,000 New York State soldiers' bonus issue, the $200,000,000 State of Ohio soldiers' compensation issues, both sold last March, and $134,000,000 Pennsylvania Turnpike bonds issued in August.

At the general election on Nov. 2, of this year issues totalling approximately $838,000,000 were authorized. This compares with about $1,100,000,000 approved at the general election last year. All in all, there is a very substantial backlog of authorized, but unsold new municipal issues. However, at this writing it does not look as though the 1948 volume figure will be exceeded during the coming year, as big bonus bond issues will be smaller in aggregate volume.

Market

In brief review, the municipal bond market had its ups and downs during the year. Based on The Bond Buyer's Market Index of 20-year municipal bonds of 20 large units, the market at the 1947 close was a 2.35% basis. It held at about that level throughout most of January of this year. It then ran off rapidly to a 2.48% basis in February. Following the successful $300,000,000 New York State deal in early March, the market gradually improved reaching a 2.23% basis the forepart of June, after which it again declined to a 2.45% basis as of Nov. 4. As of Nov. 18, The Bond Buyer's Index showed a 2.35% basis.

For comparison the market high (lowest yield level) for each year during the past six years was as follows:

Year	Yield %	Month
1943	1.69	November
1944	1.59	August & September
1945	1.35	May
1946	1.29	March & April
1947	1.78	January
1948	2.23	June

Revenue Bonds

With the constantly increasing volume of municipal revenue bonds financing and its growing importance, it has become apparent that steps could be taken which should further broaden the investment field and the markets for these securities, through a better understanding of their merits. With this in mind our Chairman, Emil Williams, appointed a Special Committee at our Spring Meeting last May. The Committee consists of:

Philips T. Barbour (Chairman), The First Boston Corporation, New York City; O. Paul Decker, American National Bank & Trust Co. of Chicago, Chicago; Hal H. DeWar, Dewar, Robertson & Pancoast, San Antonio; Robert S. Mikesell, Stranahan, Harris & Company, Inc., Toledo; William H. Morton, W. H. Morton & Co., Incorporated, New York City; Aaron W. Pleasants, The International Trust Company, Denver, and Robert O. Shepard, Prescott, Hawley, Shepard & Co., Inc., Cleveland.

Two general objectives are being pursued:

(1) To bring about in the minds of bank officials and supervisory banking authorities particularly, a more realistic appreciation and fuller understanding of the merits of the class of investment securities generally known as "municipal revenue bonds" which would entitle them to recognition as a suitable investment for banking institutions of all kinds, especially commercial banks, and

(2) To do what it can to create in the minds of prudent investors everywhere an appreciation of the true investment value of municipal revenue bonds.

The Special Committee in its study of the situation felt that among the first steps to be undertaken should be the development of a pattern for revenue bond report forms, for the purpose of broad use by dealers, investors and bank examiners. A great deal of time and thought has been devoted to the arrangement of such forms with an eye throughout of endeavoring to have them as reasonably brief as practically possible, in order that they may be complied with by municipal officials and at the same time adequate in the character of information requested to permit of an analysis of the securities that would reflect their intrinsic value. Obviously, each issue has to stand on its own merits.

A Progress Report of this Special Committee has been prepared and copies of it will be available in mimeograph form, along with copies of this Report. Your Municipal Securities Committee greatly appreciates the extensive thought and work of the Special Committee.

New Orleans

It will be recalled that it was litigation that occasioned cancellation on July 2 of the sale which the City of New Orleans made on April 28 of $15,000,000 of its Union Passenger Terminal Revenue Bonds. Bond counsel was unable to give an approving legal opinion without mention of the litigation.

Two suits were filed against the city to prevent it from proceeding with the construction of its Union Passenger Terminal. One suit was brought in the state courts, Hotard, etal v. City of New Orleans. The lower court and the State Supreme Court upheld the city and in October the United States Supreme Court dismissed an appeal from the decision of the Supreme Court of Louisiana.

The other suit, Johness Investments, Inc. v. City of New Orleans, was brought in the Federal courts. On Oct. 25 the United States Circuit Court of Appeals, Fifth Circuit, affirmed the earlier decision of the United States District Court in this case, in which the lower court had upheld the city's right to construct the Union Terminal and issue the bonds. This suit is terminated unless the plaintiff should apply to the United States Supreme Court for a Writ of Certiorari. As above noted, however, that Court recently dismissed an appeal from the decision of the Louisiana Supreme Court in favor of the City of New Orleans.

Texas

At the general election on Nov. 2, Section 1-a of Article VIII of the State Constitution was amended to read as follows:

"Section 1-a. From and after Jan. 1, 1951, no State ad valorem tax shall be levied upon any property within this State for general revenue purposes. From and after Jan. 1, 1951, the several counties of the State are authorized to levy ad valorem taxes upon all property within their respective boundaries for county purposes, except the first Three Thousand Dollars ($3,000) value of residential homestead, not to exceed thirty cents (30c) on each One Hundred Dollars ($100) valuation, in addition to all other ad valorem taxes authorized by the Constitution of this State, provided the revenue derived therefrom shall be used for construction and maintenance of Farm to Market Roads or for Flood Control, except as herein otherwise provided.

"Provided that in those counties or political subdivisions or areas of the State from which tax donations have heretofore been granted, the State Automatic Tax Board shall continue to levy the full amount of the State ad valorem tax for the duration of such donation, or until all legal obligations theretofore authorized by the law granting such donation or donations shall have been fully discharged, whichever shall first occur; provided that if such donation to any such county or political subdivision is for less than the full amount of State ad valorem taxes so levied, the portion of such taxes remaining over and above such donation shall be retained by said county or subdivision."

It will be noted that while the amendment eliminates, beginning Jan. 1, 1951, the state ad valorem tax on any property for general revenue purposes, provision is made for the State Automatic Tax Board to continue to levy the full amount of the state ad valorem tax—in those counties or political subdivisions or areas having previously been granted tax donations (so-called tax remissions)—for the duration of such donations or until all legal obligations heretofore authorized by the law granting such donations have been

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Advocates 50% Ceiling on Income Tax

IBA Federal Taxation Committee, headed by Malon C. Courts, says its objectives will continue to be the reduction of individual surtax rate schedule to maximum of 50% and repeal or modification of present capital gains tax. Contends these reforms, together with repeal of double taxation of dividends, will stimulate risk investment. Urges IBA members take active part in forwarding Committee's aims.

Malon C. Courts

Malon C. Courts, partner of Courts & Co., Atlanta, Ga., in presenting the report of the Federal Taxation Committee to the 37th Annual Convention of the Investment Bankers Association of America at Hollywood, Fla., reiterated the decision of the Committee to continue its efforts to have the maximum surtax rate on incomes reduced to 50% and a revision made in capital gains and dividend taxes. The text of the report follows:

As previously reported at the Spring Conference at White Sulphur Springs, West Virginia, your Federal Taxation Committee decided to pursue the recommendations proposed by the 1947 Committee but agreed to concentrate its efforts on the following immediate objectives:

(1) The surtax rate schedule should not go higher than 50%.

(2) Outright repeal or modification of the present capital gains tax.

The plan and program for action by your Committee was submitted to the Board of Governors at the meeting held at Westchester County Club, Rye, New York, on Jan. 30, and same was approved at that time.

Your Committee employed the law firm of Spalding, Sibley, Troutman & Kelley of Atlanta to assist in the preparation of this program.

Your Committee feels that the two above mentioned reforms are means through which Congress could promptly seek to stimulate risk investment in general and the flow of equity capital in productive enterprise in particular, without any real gamble on the revenue aspect and without colliding thereon with the budget problem. So long as the Federal budget remains at anything like $40 billion a year it will be extremely difficult, perhaps impossible, to carry revenue cutting tax reduction further than has been provided in the revenue law which was enacted this year. Yet this law, constructive as it is, leaves the income tax burden on the normal suppliers of equity capital too great for the long run health of our economy.

President Truman, in his message to Congress on the State of the Nation early in January, indicated that we were then far short of the industrial capacity we needed for a growing future. He stated that at least $50 billion should be invested by industry to improve and expand our productive capacity over the next few years.

Discussing the same problem, Standard & Poor's have indicated that if all factors were taken into account, the total need for new plant equipment could be put as high as about $75 billion which is equivalent to five years of investment at the 1947 rate. The question is where is this much needed money to come from. The major portion of last year's investment outlay was financed out of the internal funds of business consisting of accumulated depreciated reserves and undistributed profits. The next largest was met with sale of bonds to institutions, mainly insurance companies. Only a small fraction of the funds was obtained by sale of common stock to existing or new stockholders.

Right here we see a vicious cycle at work. In the past, equity capital raised from individuals has been furnished by people able and willing to take a risk if the opportunity for gain appeared promising. The present schedule of high taxation has reduced the annual savings these people would have available for investment and has all but eliminated same as a source of risk capital; and has also largely killed any incentive for accepting investment risks with such funds as are available.

Your Committee feels that the 50% ceiling on surtax rates for individuals and a reduction in the maximum tax on long-term capital gains to 12½%, if enacted into law, would actually increase the revenue to the government in the aggregate as it would give the taxpayer some real incentive to invest his money.

To support the position that no revenue gamble is involved in these measures we are attaching two letters designated "Exhibit A" and "Exhibit B."

"Exhibit A" represents a copy of a letter dated Oct. 29, 1948, written to your Chairman by Mr. Colin F. Stam, Chief of Staff, Joint Committee on Internal Revenue Taxation. This letter states that in the event no taxpayer had paid a tax rate of more than 50% of any dollar of his taxable income for the fiscal year ending in June 1948 the revenue loss under the present law from this limitation would have been $655 million and would affect all taxable income in excess of $22,000. This estimated revenue loss is not only nominal but does not present a true picture as we take the position that the maximum rate of 50% would bring about an increase in business which would, in turn, increase the total revenue rather than decrease it.

"Exhibit B" represents copy of another letter written to your Chairman by Mr. Stam in which he outlines the revenue derived annually from the capital gains tax for the period 1935-1945 inclusive, figures for 1946 and 1947 not being available. Your Committee thinks that if you examine the figures in this exhibit you will agree with them that this tax has been nominal during this period with the exception of 1944 and 1945 and in those years the revenue is not large when compared to the total revenue.

In March of this year arrangements were made for a witness representing the Association to appear before the Senate Finance Committee. Richard W. Courts of Courts & Co., Atlanta, testified before this committee on March 10 advocating a 50% ceiling on surtax rates and a reduction of the maximum tax on long-term capital gains to 12½%. In this testimony he emphasized the shortage of risk capital and its effect on the industrial economy of the nation. A copy of his testimony was sent to the Congressmen who were members of the Ways and Means Committee at that time. A copy was also furnished members of the Tax Committee and the Board of Governors of the Association. There are now a few copies available which will be supplied upon request.

In addition to the formal testimony given before the Senate Finance Committee, several trips were made to Washington to talk with members of Congress, government officials, labor officials and many others. Your Chairman expects to give a report of these particular meetings to the Board of Governors.

When the 1948 Revenue Act was introduced on the Senate floor Senator Claude Pepper of Florida offered an amendment to the Bill to make 50% the top bracket on individual rates and made a strong speach supporting this measure. His entire speech appears in the Congressional Record issue of March 22, 1948, excerpts of which are attached to this report designated as "Exhibit D." Unfortunately this amendment was not adopted but members' particular attention is directed to the clear presentation of this proposal by Senator Pepper.

After the passage of the Revenue Act of 1948, the Revision Revenue Act of 1948, generally known as the "Technical Bill," was prepared by the Ways and Means Committee and actually passed by the House although never formally considered in the Senate before Congress adjourned. The Committees of Congress and the Treasury have published a number of recommended technical changes to be included in this bill. Your Committee commented in its Spring meeting report on the various aspects of this bill which were of concern to our members and included provisions concerned with Capital Gains, Corporate Distributions, Section 102, Inter-corporate Dividends and Consolidated Return, Loss Carry-over and Carry-back and Contemplation of Death. It is likely that some form of the "Technical Bill" will be passed by the Eighty-first Congress and some of the proposed revisions of the Revenue Act of 1948 which were not adopted may be included in the new act and your present Committee recommends that the 1949 Committee follow closely the progress of this bill.

At this point your Committee thinks it well to mention the fact that some effort should be made to get a provision in the "Technical Bill" which would grant an option to the owners of certain unincorporated businesses to report and pay Federal taxes at either the individual rates or corporate rates. In this connection, on one of our recent trips to Washington we ascertained from a reliable source that members of the Ways and Means Committee and the Senate Finance Committee were most sympathetic to this problem and were very anxious to correct the present discrimination provided a bill could be properly drawn which would not only meet the problem but also be feasible to administer. This proposal would afford justified relief to certain members of the investment banking fraternity who are required to conduct their business as partnerships. This matter is being further discussed at the Convention with the hope that action may be taken when Congress convenes in January of next year.

During the past year you have heard much about the injustice of double taxation of corporate dividends. Were Congress able to start from scratch and plan a Federal tax system designed to interfere as little as possible with the flow of risk capital into job-making investments it certainly would not subject the return on dividends to the kind of double taxation that it now bears. This is not only a matter of gross injustice to all taxpayers but it makes it more difficult for corporate enterprises to raise equity capital for expansion programs and so forces them to meet such needs by going into debt in undesirable degree. Your Committee agrees that this problem is one that should be given relief at the proper time but it is the opinion of your committee that this desirable objective must be considered, under present circumstances, as more in the nature of a longer term objective than the two immediate objectives stated at the start of this report. The basis of argument being that for the fiscal year ended in June 1948, the total receipts from corporate taxes amounted to approximately $10 billion. This fact is substantiated by a letter dated Oct. 26, 1948, from Mr. Stam to Mr. Murray Hanson, your counsel, and is designated as "Exhibit C." Although we do not have at hand the exact amount received from the tax on dividends, obviously it must be very substantial. Since it seems probable that the elimination of double taxation of dividends might therefore result in a considerable loss of revenue to our government, at a time when such revenues are needed, it may not be possible to obtain this relief at this time.

Now we come down to the question what can be done? Our answer can well be taken from the article published by Standard & Poor's entitled "For the Good of the Nation," which reads in part:

"What can you do? A great deal. You can be an active citizen, working for the welfare of this nation, rather than a fatalist. You can tell your representative in Congress what you think. You can discuss, argue and persuade wherever it might do some good, helping to educate and arouse

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Stock Exchange Committee Opposes Cut in Membership

Upholds view of special N. Y. Stock Exchange Committee that reduction in memberships would be departure of fundamental policy of affording free and open market for securities.

In a brief report to the 37th Annual Convention of the Investment Bankers Association at Hollywood, Fla., Laurence M. Marks of Laurence M. Marks & Co., New York City, Chairman of the Committee on Stock Exchange Relations, reported the Committee's view that that any reduction in membership of the New York Stock Exchange would violate fundamentally the principle of policy of affording free and open markets with supply and demand determining prices, and contended a better way to enhance value of Exchange seats is to obtain additional listings. The text of the Committee's report follows:

Laurence M. Marks

In the past year comparatively few problems have presented themselves to your Stock Exchange Relations Committee.

Margins—The management of the Stock Exchange is continuing to work on a liberalization of the margin rules. Thus far no definite progress has been made.

Taxation—The officers of the Stock Exchange are also lending every effort to income tax reform, particularly as pertaining to a reduction of the Capital Gains Tax and also to the waiting period. Of course, times are not propitious for tax reductions but the management is working steadily on the problem.

The Strike—As you know, and as was reported in the interim report of this Committee to the Spring Meeting of the Board of Governors in May, in the course of the winter the union employees of the Exchange went out on strike. They were out five weeks and the strike was finally terminated by union vote. The union employees at the end of the strike received the exact raises they had been promised prior to the strike. In addition, it was found possible to operate the Exchange with 100 fewer employees.

Committee on Retirement of Memberships

Another problem the Exchange resolved during the winter was the question of retirement of seats. As also was reported at the Spring Meeting, early in January the Board of Governors of the Exchange, on petition of about 20 members, appointed a special committee to explore the advisability and practicability of adopting a plan for the retirement of membership.

The Committee worked for about three months on this problem and there appeared before it 93 members and two allied members of the Exchange.

The Committee did not feel that retirement of seats would accomplish any particular purpose. In 1929 there were approximately 750,000,000 shares listed and there are now 1,900,000,000, approximately three times as many. In addition, in the last 10 years a number of firms have joined the Stock Exchange, a great many of them members of the Investment Bankers Association. It was the thought of the Committee that the value of seats could be enhanced naturally by obtaining additional listings of shares on the Exchange and by acquiring new members all over the country. In reporting the findings of the Committee, Robert P. Boylan, Chairman of the Board, commented as follows:

"Any seat retirement program could not be selective and, unquestionably, a great number of seats which would be retired would be those held by the estates or inactive members. Thus, one of the primary objectives of a seat retirement plan would be adversely affected at the outset.

"In addition, there is the question of a radical departure from a very fundamental principle of Exchange policy. The Exchange has always staunchly advocated free and open markets with supply and demand determining price. The Board of Governors is strongly of the opinion that any seat retirement plan would be a contradiction of this policy and therefore it would be a most unsound step to take. The Board feels that the efforts of the Exchange should be toward expanding the value of the services rendered by the Exchange to the public, which should tend to increase volume of transactions."

Stock Exchange Memberships

During the year a number of members of the Investment Bankers Association have joined the New York Stock Exchange.

As you know, seats are selling in the neighborhood of $50,000 so membership in the Exchange would seem during these slow times a sound way to add another source of revenue which would be most helpful.

Respectfully submitted,

Stock Exch. Relations Committee

Laurence M. Marks (Chairman); Walter F. Blaine; John D. Burge; Ralph W. Davis; Allen C. DuBois; Benjamin H. Griswold, 3rd; Richard A. Kebbon; Joseph H. King; Samuel D. Lunt; Chas. B. McDonald; Louis Meyer, Jr.; William H. Mitchell; Gethryn C. Stevenson; Albert W. Tweedy.

In Attendance at IBA Convention

ABRAMS, Jr., JAMES S.
Allen & Co., New York

***AGEE, RUCKER**
Sterne, Agee & Leach, Birmingham

AINSWORTH, WALTER W.
Metropolitan St. Louis Co., St. Louis

ALLEMAN, F. MONROE
Leedy, Wheeler & Alleman, Orlando

ALLEN, E. RAY
Stranahan, Harris & Co., Chicago

ALLEN, SIDNEY P.
San Francisco "Chronicle," San Francisco

***ALLEY, WILLIAM M.**
A. E. Ames & Co., New York

ALLYN, ARTHUR C.
A. C. Allyn & Co., Chicago

***ALTGELT, Jr., E. J.**
Harris Trust & Savings Bank, New York

***AMAZEEN, EDWARD S.**
Coffin & Burr, Boston

AMES, AMYAS
Kidder, Peabody & Co., New York

AMES, JOHN D.
Journal of Commerce, Chicago

ANDERSEN, JONAS C.
Blair & Co., New York

ANDERSON, EDWARD C.
Anderson & Strudwick, Richmond

ANDERSON, HERBERT R.
Distributors Group, New York

ANDERSON, Jr., WILLIAM J.
Equitable Securities Corp., Nashville

***ARMITAGE, ALBERT T.**
Coffin & Burr, Boston

ARNOLD, HAZEN S.
Braun, Bosworth & Co., Toledo

***ARONLD, H. WILSON**
Weil & Arnold, New Orleans

***ARTHURS, ADDISON W.**
Arthurs, Lestrange & Klima, Pittsburgh

***ASHMUN, CLIFFORD S.**
C. S. Ashmun Co., Minneapolis

ASHPLANT, FREDERICK, B.
F. B. Ashplant & Co., New York

***ATKINS, J. MURREY**
R. S. Dickson & Co., Charlotte

AVERELL, ALFRED B.
Bache & Co., New York

AYERS, WILLIAM L.
International Bank, Washington

BAKER, DUDLEY F.
Bosworth, Sullivan & Co., Denver

BARBOUR, PHILLIPS T.
First Boston Corp., New York

***BARCLAY, Jr., WILLIAM K.**
Stein Bros. & Boyce, Philadelphia

BARNES, DAVID
Ranson-Davidson Co., Miami

BARR, W. MANNING
Barr Brothers & Co., New York

BARROW, WM. RUSSELL
Barrow, Leary & Co., Shreveport

***BARRY, EUGENE P.**
Shields & Co., New York

BARTOW, CLARENCE W.
Drexel & Co., New York

BASSETT, EARL K.
W. E. Hutton & Co., New York

***BATEMAN, HENRY M.**
Bateman, Eichler & Co., Los Angeles

BAXTER, DANA F.
Hayden, Miller & Co., Cleveland

***BECKERS, W. K.**
Spencer Trask & Co., New York

***BECKETT, Jr., THOMAS**
First Southwest Company, Dallas

BELL, RUSSELL D.
Greenshields & Co., Montreal

BENDER, ROBERT F.
Wachob-Bender Corp., Omaha

BIGGER RICHARD A.
R. S. Dickson & Co., Charlotte

***BISCOE, Jr., HOWARD M.**
Whiting, Weeks & Stubbs, Boston

BIVINS, ROBERT A.
Chase National Bank, New York

***BLACK, EUGENE R.**
International Bank Washington

BLAKE, JOHN L.
Eaton & Howard, Boston

***BLAKE, SIDNEY S.**
H. M. Byllesby & Co., Philadelphia

BLUNT, JOHN E., 3rd
Blunt, Ellis & Simmons, Chicago

BLYTH, ROBERT B.
National City Bank, Cleveland

BOEHMLER, ERWIN W.
Investment Bankers Assn., Chicago

BOGERT, Jr., H. J.
Eastman, Dillon & Co., New York

***BOLES, EWING T.**
Ohio Co., Columbus

BOLTON, FREDERICK J.
H. V. Sattley & Co., Detroit

BOOTHBY, WILLARD S.
E. H. Rollins & Sons, Philadelphia

BOWMAN, FRANCIS B.
Chase National Bank, New York

BRADLEY, MAHLON O.
Paul H. Davis & Co., Chicago

BRADLEY, S. WHITNEY
Eaton & Howard, Boston

BRANSON, ELLEN M.
Investment Bankers Assn., Washington

BRAYSHAW, DONALD B.
Distributors Group, Atlanta

***BREWER, ORLANDO S.**
Phelps, Fenn & Co., New York

BROOKS, SPRINGER H.
Piper, Jeffray & Hopwood, St. Paul

***BROOME, ROBERT E.**
Guaranty Trust Co., New York

BROWN, AUSTIN A.
Dean Witter & Co., New York

BROWN, WILLIAM P.
Baker, Simonds & Co., Detroit

BRYANT, EMMONS
Reynolds & Co., New York

BRYCE, T. JERROLD
Clark, Dodge & Co., New York

BUCKNER, ERROL E.
Nat. Bank of Commerce, New Orleans

***BULLOCK, HUGH**
Calvin Bullock, New York

BURDEN, WILLIAM A. M.
Smith, Barney & Co., New York

BURNS, Jr., JAMES F.
Harris, Upham & Co., New York

BUTLER, WILLIAM R.
"Herald Tribune," New York

***BUTTENWIESER, BENJ. J.**
Kuhn, Loeb & Co., New York

***BUZBY, Jr., WILLIAM D.**
Butcher & Sherrerd, Philadelphia

***BYRNE, WILLIAM D.**
Byrne & Phelps, New York

***CAHN, Jr., WILLIAM M.**
Henry Herrman & Co. New York

CALDWELL, DONALD
J. Barth & Co., New York

CALDWELL, G. JAMES
Caldwell Phillips Co., St. Paul

CALLAGHAN, JOHN W.
Goldman, Sachs & Co., New York

***CALLOWAY, Jr., DAVID H.**
First of Michigan Corp., New York

CALVERT, GORDON L.
Investment Bankers Assn., Washington

CAPEK, CHARLES A.
Lee Higginson Corp., Chicago

CARBERRY, PATRICK,
"Wall Street Journal," New York

CARDWELL, MARION H.
J. J. B. Hillard & Son, Louisville

CARPENTER, FREDERICK B.
John Nuveen & Co., Chicago

*Denotes Mr. and Mrs.

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Recommends New Uniform State Securities Act

IBA State Legislation Committee, whose Chairman is George F. Noyes, says, though draft of proposed law is not expected to be ready for legislative action in 1949, local groups should be watchful of amendments to present blue sky laws. Stresses need for workable exemption for regular over-the-counter and secondary market transactions as well as integration of States' securities acts with Federal laws.

George F. Noyes, Vice-President and Secretary of The Illinois Company of Chicago, and Chairman of the State Legislation Committee of the Investment Bankers Association of America, in his report to the 37th Annual Convention called attention to progress being made by special committees of the American Bar Association and the National Conference of Commissioners on Uniform State Laws in drafting a new uniform state securities act. In this work Mr. Noyes stressed three specific improvements which should be embodied in such legislation to eliminate large amount of trouble experienced under present Blue Sky Laws. The text of the Committee's report follows:

George F. Noyes

While the past year has been inactive as to legislation, with only a few legislatures in session, your committee has several items to report which it believes are important and of interest to the membership.

New Uniform State Securities Act

First in order of importance is a report of progress on the new Uniform State Securities Act. This work is in the hands of special committees of the American Bar Association and the National Conference of Commissioners on Uniform State Laws. These committees asked our Association for assistance in the form of material and suggestions which they could use as a working basis for the drafting of the new Act. Members of the IBA staff and representatives of the State Legislation Committee prepared and submitted such material and the committees of the two above organizations are now working on the first draft of the proposed new Act. It is expected that some time next year this first draft will be finished and made available for discussion by interested parties, including the Investment Bankers Association, the National Association of Securities Dealers, the Stock Exchanges, the Securities and Exchange Commission and the National Association of Secuirties Administrators.

The new draft is not expected to be ready in time for legislative action in any of the 1949 sessions in the various states. However it is important that Group Legislation Committees be especially watchful during these sessions for anything in the nature of amendments to the present blue sky laws, and discuss any such amendments with this committee, either through the Chairman of the IBA staff. In this way any work that is done can be made more constructive by conforming to the general pattern which develops in the work on the proposed new Uniform Act.

In making recommendations for the new Uniform Act, this committee and the staff have stressed three specific improvements through which they believe a large amount of our blue sky troubles can be eliminated.

(1) To facilitate the normal advance discussion of forthcoming issues with customers:

(2) To provide a workable exemption for regular over-the-counter and secondary market transactions in outstanding securities.

(3) To integrate the State Securities Acts with the Federal Securities Act by providing—

(a) A notification procedure for state registration of securities which are registered under the Federal Act and meet certain tests; and

(b) A short-form procedure for registration by qualification of other securities which are registered under the Federal Act.

This committee believes that the present diversity and confusion between the requirements of the several states, and the lack of integration with the Federal Act, are responsible for a great deal of unnecessary expense and effort in the issuance of securities, all of which is wasted as far as the protection of the investor is concerned. At a time when the free flow of private capital into legitimate enterprise is as important an economic factor as at present, the need for elimination of such obstacles is obvious. This committee believes that adoption of provisions in the state securities acts to accomplish the objectives outlined herein, together with greater uniformity in the requirements of the several states, would go far to eliminate such obstacles without impairing the protection of investors.

Relationship With State Securities Commissioners

The item second in importance is that of our relationship with the State Securities Commissioners. In the opinion of this committee, these have never been on a more friendly and cooperative basis than at present. At the annual convention of the National Association of Securities Administrators at Portland, Ore., July 19-22, the guest speakers were predominantly representatives of our industry, including President Collins. In addition to his attendance, the Investment Bankers Association was represented by members of the staff and of this committee. For the first time in 28 consecutive years Arthur Davis was unable to attend, but it was apparent to everyone present that our friendly relationship with the Commissioners rests on the foundation of his work throughout that time.

This committee, through its members in the various groups, was able to be of material assistance to those in charge of the Portland convention in connection with attendance. By getting in touch with the proper state officials, our committee members made it possible for several State Commissioners to attend who might otherwise have been unable to do so. This resulted in goodwill on the part of these Commissioners as well as the officers of the Association.

While the relationship between their Association and ours, as such, is important, it is well to remember that each Commissioner must necessarily function on his own responsibility in administering the blue sky laws of his state. Therefore this committee wishes to emphasize, to the members of the Group Legislation Committees and to the membership at large the importance of a personal acquaintance with the individual State Commissioners. This can be developed throughout the year by our members and committee members in the respective states and on a nationwide basis by attendance at the annual convention of their Association. It is probable that this convention will be held in Richmond, Va., in 1949.

We especially urge the larger underwriting houses to send representatives, in addition to considering that they are represented by their blue sky counsel, who attend these conventions regularly. A personal acquaintance with the administrator is just as valuable in handling blue sky matters as it is between the members of the Investment Bankers Association in doing business with each other. And many of the administrators have told us that it is frequently much easier for them to understand some of the problems of our business by talking directly with the people in the business.

The maintenance of extension of this acquaintance is especially important at this time, both because of the legislative sessions in 1949 and because the outcome of the election may result in the appointment of new administrators in some states. With respect to the latter, we were interested in the favorable comments of some of the newer Commissioners at the Portland convention, as to the opportunity of becoming acquainted with representatives of our business. Too often their impression of the securities business is influenced by the type of issues and transactions which make most of their trouble and take most of their time and attention—in most cases situations entirely outside of the securities business as we know it. It is up to us to correct this impression.

Differences of opinion and disagreements on blue sky matters are bound to occur, but they can me minimized, both in number and effect, by a closer acquaintance and a better understanding of each other's problems.

Developments in Various States

California — Section 8 of the Corporate Securities Act, which sets up certain requirements for "installment purchase contracts," was amended effective April 27, 1948, to provide that "when, as and if contracts" are not "installment purchase contracts" within the meaning of that Section.

Illinois—A special committee of the Chicago Bar Association has been working since early this year on a draft of a new Securities Act for Illinois, to be ready for introduction in the session of the general assembly beginning January, 1949. Our Central States Group State Legislation Committee, under the chairmanship of Charles S. Vrtis, has been closely in touch with this work, and has had a number of meetings with the drafting committee. Mr. Vrtis and his committee were also instrumental in bringing about joint action with representatives of District No. 8 of the National Association of Securities Dealers, the Illinois Securities Dealers Association and the Chicago Stock Exchange, to the end that our industry could present its views of a unified basis.

The draft bill, in its present form, represents a great improvement over the old Illinois Act, and in the main covers the ground referred to in this report in connection with the new Uniform Act. There are still some provisions in which the representatives of our industry believe that

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Safe Havens in Case Of World War III

By ROGER W. BABSON

This week's column is not written for farmers, as I know nothing about farming. Nor is it written for those who live in small self-sustaining cities or rural communities. Rather, I am writing for my business friends in New York, Chicago, Philadelphia, Detroit, Los Angeles, Cleveland, Baltimore, St. Louis, Boston, Pittsburgh, and Washington, D. C. Because when World War III does come, some one or more of these 11 cities will suffer a terrible loss of life.

Roger Babson

Readers who live in the famous "Magic Circle" are especially fortunate and have nothing to fear. You are in "the richest in time of peace and safest in time of war" of any part of the U. S. Probably every state has some similar safe, productive and attractive sections. Readers who live in such places should be very thankful. With the above introduction I will sail ahead.

What I Have Done

For some time our Statistical Organization has been building a branch at New Boston. N. H., for use in case of World War III. We bought an old brick building which we could use for offices and several nearby homes in which we could house a limited number of executives. We believe that many more business concerns in one of these vulnerable cities should do the same thing. They owe it to their customers. Most employers have summer places to which they personally could flee, but such places do not provide an emergency plant or emergency offices.

We, however, have not been content to do only this. Hence, we have been picking up some old farm houses to which the families of our employees could move. These are from one to three miles from our Emergency Plant at New Boston, a distance which could easily be covered with a horse and wagon if no gasoline is available. Such farm houses are well-built with all modern conveniences and would cost $30,000 to build today.

What Old Farms Cost

"Old" Boston is a city of about 800,000, and with its close suburbs contains about 2,550,000. The authorities told us that to be *absolutely* safe we must be about 60 miles away. Hence, for our Emergency Plant, we went north to New Boston, N. H., where there is a bountiful supply of food and fuel which makes it independent of railroad transportation.

In addition to the emergency offices and homes for executives, we are taking another step to protect, in such an emergency, our loyal employees of long service. As an illustration, we last week bought for only $6,800 a farm of 183 acres with an old farmhouse of ten rooms, a good barn, electric lights and telephone. It consists of 73 acres of woodland, 70 acres of pasture, and 40 acres of bottom tillage. The place borders a river; a small waterpower is nearby. It is not an *investment* any more than an insurance policy is an *investment*. Such a farm would give a family wholly dependent thereon *only a meager existence*. The same time and energy spent on a city job would pay four times as much as if expended on this farm—but for employees who work in a large city, *it is an excellent insurance policy*.

Farms as Insurance

This is not a recommendation that educated young or old people try to get a living on such a farm. The experiment would probably end in disappointment. Such farms are useful as summer homes for employers and executives within commuting distance, or those who have saved or inherited a modest nestegg. *This, however, is an appeal that medium-sized corporations provide not only for their owners and the business, but also for their key employees and families.*

I believe that more corporations should buy a few of such farms within 20 to 60 miles of their plant. These farms should be fairly close together; they should be expected to pay only enough to compensate for maintenance and taxes. They should be furnished so each house could—in an emergency—take care of four families (with one central kitchen). I repeat: There someday will be a World War III; when it comes some of the above cities will be bombed. Old employees who have not the money to buy and maintain such places of refuge, should be protected in this way. Time to buy such farms is *now*.

Reveals Heavy Utility Debt Financing

(Continued from page 23)

opportunity to average down the cost of their investment in the bonds.

This year has seen further progress in the breaking up of the holding companies as called for by the Holding Company Act of 1935. While there have been some public sales of stocks held by holding companies, notably the large amount of Detroit Edison Common formerly owned by American Light & Traction, distribution of stocks in holding company portfolios has more often followed the course of prorata distribution to the holding company stockholders. Taking into account sales and distributions already made, it would appear that the dissolution or integration of the holding companies as contemplated by the 1935 Act may now be as much as 80% completed. In other cases, such as Commonwealth & Southern Corporation, the pattern has been worked out.

There has recently been much talk of additional Federal Power projects. During the recent presidential campaign Mr. Truman promised such projects to voters in many parts of the country and these promises for the most part are likely to be kept. The nature of the developments will vary in different parts of the country, but of one thing we can be sure that government financed projects will add many millions of kilowatts in generating capacity over the next decade. These developments are likely to affect principally the far West and the Southwest, although the East will also share through the proposed St. Lawrence Waterway development and the Southeast through development of the so-called southern watershed. It does not presently appear that any of these developments will follow the pattern of TVA, but that they are more likely to be along the lines of the Hoover, Grand Coulee and Bonneville projects.

It is evident to all of us that the projects heretofore completed have largely benefited rather than harmed the utilities in the respective districts where such projects are located, with the exception of TVA. For example, consider what it would have meant to Southern California Edison Company in the way of additional plant investment had power not been available from the Colorado River development. We can look back now and see clearly that the utility industry would not have been able to carry the load it did in the war and immediate postwar years had it not been for power available from such developments as those on the Colorado and Columbia Rivers. It is the belief of your Committee that the method of disposing of power generated at government projects (again excepting TVA) has proved so satisfactory to the government, the private utilities and the public that this pattern is most likely to be followed in connection with the present governmental program which contemplates creation of an additional 4,400,000 kw. of power capacity between now and the end of 1954. Your Committee, therefore, does not look upon this expectation of additional Federal Power projects as necessarily a threat to the privately owned utilities, assuming recognition and respect for the rights of the utility companies and investors in their securities.

While 1948 has set a record in new money financing by the utilities we may look for a continuance of financing at a high level and perhaps another new record in 1949. Installation of new generating capacity in 1948 will approximate 4,750,000 kw. It is expected to hit 6,700,000 kw. in 1949, part of the cost of which has been covered by financing already done. The schedule for 1950 is 5,800,000 kw. and for 1951 6,060,000 kw. The telephone companies particularly the ones in the Bell System, are still far from having caught up with their backlog. It is not expected that telephone company financing in 1949 will reach the levels of 1948 but there will still be perhaps as much as a billion dollars of such financing.

The utility industry enters this period of large additional financing in excellent position. Revenues of the electric light and power industry are currently running at the rate of more than $4 billion a year, an increase of 53% over 1941 and 110% over the boom year of 1929. A substantial part of the increase has been in the profitable residential class of service, accounting for 36% of the increase since 1941 and 37% of the increase since 1929. The rate of increase in residential consumption has been accelerated since the war by the filling of pent-up demands for household appliances and such other factors as the advent of television.

The electric power and light industry is carrying an increasing proportion of the additional revenues through the gross income one of the major reason being the reduced operating costs resulting from new, more efficient generating equipment. Net income in the third quarter of 1948 exceeded that of the third quarter of 1947 by 7½%. This increase practically offset the year-to-year declines reported for the first two quarters. For the whole year, net income should equal and may exceed the all-time record high of 1947.

Regulatory commissions have recognized the necessity of granting rate increases to offset increased labor and fuel costs. Such increases have been wide-spread in the telephone industry and there have been a substantial number granted to electric light and power, and gas companies. It is reasonable to anticipate that, where necessary, utilities will obtain reasonable rate increases to permit them to earn a fair return on their investments, including the substantially higher investment per kilowatt of capacity required under present day construction costs.

However, your committee believes that the utilities face a serious problem. A substantial, and probably a major, part of the financing of the balance of the construction program must be done through the sale of equity securities. We have previously noted an increase in common stock financing by the utility companies, particularly in the second half of the year and through the medium of offerings of stock to stockholders. Such offerings have met with varied degrees of success, subscriptions ranging from as low as 21½% to as high as 98½% of the amount of stock offered.

Where the additional stock has been offered at a liberal discount from the existing market and where the dilution has been moderate, such offerings have been generally successful. As a whole, however, these offerings have proved again that most people—and particularly the smaller investors—do not *buy* securities, but have securities *sold* to them by an investment dealer in whom they have confidence.

In the report of this Committee to the Spring Meeting, we made reference to a suggestion for facilitating equity financing of utilities. This suggestion was that utility companies might find it advantageous to raise equity funds through the sale of stocks without underwriting or commitment, but with management and supervision by investment bankers. Since the suggestion was made last Spring, there has been one sizable piece of equity financing handled in this manner, namely, the Sale by Columbia Gas & Electric System of 1,223,000 shares of common stock. One of the national investment banking houses, for a flat fee which was modest in relation to the amount of the financing, managed the deal and through its efforts more than 700 dealers in all parts of the country worked on the placement of this stock. The company paid a fee to dealers on stock taken by stockholders or purchased by new stockholders. The entire amount of the stock was successfully placed without disturbance to the market and at a reasonable cost to the utility company.

Your committee feels that only through the cooperation of our industry can the utilities raise the equity money they must have and without which they cannot, in most cases, do additional debt financing. But the time has come when we must be paid adequate compensation for the work we do along these lines. It is too much to expect payment on the generous scale which prevailed when the utilities were raising

their billions for expansion in the 1920s. The basis of compensation to underwriters and participating dealers must, however, exceed that of 1948 and recent years, if we as an industry are to maintain the machinery necessary to raise the hundreds of millions of equity dollars the utilities will need in 1949 and following years. The utilities and the regulatory bodies must recognize that the investment bankers cannot longer be expected to live and perform efficiently on starvation wages.

Respectfully submitted,

Public Service Securities Committee

Robert Mason (Chairman); Robert W. Baird; Joseph H. Briggs; Carl H. Doerge; Leslie J. Fahey; Gene B. Heywood; Edgar J. Loftus; Franklin T. McClintock; Wallace M. McCurdy; George L. Perin; William M. Rex; Donald Royce.

Reports Philadelphia-Baltimore Exchange Merger Plan

According to an Associated Press dispatch from Baltimore on Dec. 19, the governing boards of the Baltimore and Philadelphia Stock Exchanges have agreed on a merger plan. The merger will be effected, it is said, as soon as formalities are completed, possibly next month or early February. The merger plan, in the meantime, will be submitted to the membership of the two exchanges. J. Dorsey Brown, President of the Baltimore Exchange, reports the merged organizations will be known as the Philadelphia-Baltimore Stock Exchange.

Advocates 50% Ceiling On Income Tax

(Continued from page 25)

public opinion. There are millions of you, capable of speaking up and getting a respectful hearing."

Summing up our efforts for the year, your Committee is of the same opinion as at the outset, namely, that the 50% ceiling on individual rates and a 12½% maximum tax on long-term capital gains represents the two most feasible and constructive reforms that could be written into the law at this time and we ask your whole-hearted support of the attempt to accomplish these two changes in the tax law. We also believe that everything possible should be done to accomplish the longer term objective of removing the present unfair and economically dangerous double taxation of corporate earnings.

Your Chairman wishes to thank the officials of your Association, its counsel, the members of the Federal Taxation Committee and other individual members of the Association for their generous support to our plans and program throughout the year.

Respectfully submitted,

Federal Taxation Committee

Malon C. Courts (Chairman); Amyas Ames; M. J. M. Cox; John H. Crago; Richard M. Delafield; Richard P. Dunn; Sherman Ellsworth; Sumner B. Emerson; Hardin H. Hawes; James M. Hutton, Jr.; Robert L. John; Newell S. Knight; James H. Lemon; Herman L. Lind; James E. Roddy; Ralph W. Simonds; Darnall Wallace.

Exhibit "A"

Congress of the United States
Joint Committee on Internal Revenue Taxation, Washington
Colin F. Stam, Chief of Staff
G. D. Chesteen, Asst. Chief

October 29, 1948

Mr. Malon Courts
Courts and Company
11 Marietta Street, N. W.
Atlanta, Georgia

Dear Mr. Courts:

Reference is made to our recent discussion concerning the revenue loss from providing that no taxpayer pay a tax rate of more than 50% of any dollar of his taxable income.

Before enactment of the Revenue Act of 1948 we estimated a revenue loss of $1,025 million if the then present law were amended to provide that no taxpayer would pay on any dollar of his taxable income a rate in excess of 50%. This would have affected all taxpayers with taxable income in excess of $18,000. The combined rate at that time was 50.35% on the taxable income between $18,000 and $20,000.

The estimated revenue loss under present law from this limitation is $655 million and would affect all taxable incomes in excess of $22,000.

The reduction in the revenue loss from $1,025 million to $655 million is due principally to two factors. First, the rate reduction provided in the Revenue Act of 1948 increased from $18,000 to $22,000 the point where the 50% limitation would become effective; and second, the split income provision of the Act provided in effect a much lower marginal rate for those taxpayers filing joint returns, thereby reducing their benefit from the 50% limitation.

If there are any further questions concerning these estimates, please let me know.

Sincerely yours,
(sgn.) Colin F. Stam
Chief of Staff

Exhibit "B"

Congress of the United States
Joint Committee on Internal Revenue Taxation, Washington
Colin F. Stam, Chief of Staff
G. D. Chesteen, Asst. Chief

November 10, 1948

Mr. Malon Courts
Courts & Company
11 Marietta Street, N. W.
Atlanta, Georgia

Dear Mr. Courts:

In accordance with your telephone request I am enclosing herewith figures showing the net tax on capital gains for the period 1935-1945 inclusive. The figure for 1945 is preliminary and all were prepared by the Treasury Department.

Sincerely yours,
(sgd.) Colin F. Stam
Chief of Staff

Enc.

Estimated Taxes on Capital Gains and Losses of Individuals
1935-1945
(In thousands of dollars)

Year of Liability	Total
1935	71,967
1936	170,884
1937	41,173
1938	12,472
1939	4,408
1940	—7,301
1941	—85,677
1942	67,542
1943	265,996
1944	354,391
1945	720,693

Exhibit "C"

Congress of the United States
Joint Committee on Internal Revenue Taxation, Washington
Colin F. Stam, Chief of Staff
G. D. Chesteen, Asst. Chief

November 10, 1948

Mr. Murray Hanson
Investment Bankers Association
1625 K Street, N. W.
Washington, D. C.

Dear Mr. Hanson:

With reference to your telephonic inquiry of Oct. 25, 1948, the total corporation receipts for fiscal year 1948 amount to $10,174.4 million. This figure was taken from the "Comparative Statement of Internal Revenue Receipts for June 1948 and 1947 and for the Fiscal Years 1948 and 1947," issued by the Bureau of Internal Revenue. The figure is broken down as follows:

	Millions of Dollars
Corporation:	
Current	$8,864.2
Back	987.2
Excess profits tax (Rev. Acts of 1940, 1941, 1942)	305.3
Miscell. profits taxes: Declared value of Vinson Act	17.7
Total corporation taxes	$10,174.4

Sincerely yours,
(sgn.) Colin F. Stam
Chief of Staff

Exhibit "D"

Excerpts taken from Congressional Record of March 22, 1948, containing part of the speech Senator Claude Pepper made in which he advocated a maximum rate of 50% on surtax rates for individuals, same to be made a provision of the 1948 Revenue Bill:

"The other principle which should prevail in the bill is that reduction should be made to those taxpayers who carry the load of the private-enterprise system so as to provide the greatest incentive for more abundant production and the expansion of the national economy.

"I shall in substance offer two amendments, the first of which, as I have said, is the President's proposal to the Congress, which will adopt the $40 per taxpayer cost-of-living credit to the individual taxpayer and to his dependents. In the case of a single man that would be $40; in the case of a married man, $40 for himself, $40 for his wife, and $40 for each dependent the married taxpayer who is the head of the family may have.

"I shall offer subsequently an amendment the effect of which will be to strike out the 77% which is the maximum rate which under the bill may be applied to the individual taxpayer and insert in lieu thereof the figure 50%. That is not to give large taxpayers immunity from tax obligations which I think they should bear. It is merely to give incentive to the individual taxpayer to make the greatest contribution he can make to the productivity and the income of the Nation.

"Mr. President, I know that if we want a motor to run we must give it gasoline; if we want a mule to plow we must feed him; and if we want the men and women of America who have the greatest ability to produce to contribute their utmost to the economy of the Nation, we must let them have a little something left which they can call their own.

"A few days ago a man engaged in business said to me, 'If I make $100,000 I get $35,000 residue for myself, but for the next $100,000 I make I get $5,000, for the next $100,000 I make I get another $5,000, and for the third $100,000 another $5,000.' He said, 'Why should I risk losing my investment when I have no hope of reward of any appreciable character coming back to me from my enterprise?'

"I believe in the private-enterprise system. I want the taxpayer to pay according to his ability, but there is a point of diminishing returns, and if we do not recognize it, we thwart the principal incentive we have, the incentive which carries us all on in our private-enterprise economy."

The Outlook for The Capital Market

(Continued from page 18)

sion funds is spreading rapidly. It is becoming evident that the depreciation of the dollar is permanent in character and that a return to the price level of the '30's or the '20's is virtually out of the question. Under these circumstances, to protect their families, many people will be forced to carry more insurance than they did when the purchasing power of the dollar was higher. Furthermore, because of the high prices and taxes and the inability of individuals to accumulate an independent income for their old age, many corporations have realized the necessity for establishing pension funds.

The funds accumulated by insurance companies and by administrators of pension funds seek outlets primarily in bonds and other fixed-income-bearing obligations. The large amount of government securities acquired by institutional investors also gives them the opportunity of converting part of these obligations into cash and investing the proceeds in new securities, particularly when the latter yield a higher return. It may be expected that whenever business activity is high and the government shows a surplus, the agencies of the government, such as the Old Age Insurance Fund and the Unemployment Trust Fund, will buy outstanding government obligations, thus furnishing sellers of these securities with cash with which to make new investments. Similarly, when business activity is downward and the supply of bonds declines, these agencies will sell government obligations in order to provide institutional investors with securities. The policy of the Federal Reserve authorities to maintain an orderly government bond market has provided institutional investors, notably life insurance companies, with a ready outlet for their long-term government securities. During the past year the Reserve Banks have acquired a large amount of long-term government bonds, thus placing funds at the disposal of insurance companies with which to absorb new securities.

Commercial banks are also large buyers of short- and medium-term government obligations, as well as of corporate securities and state and municipal bonds. Their ability to buy new securities depends on their reserve position, which in turn is greatly influenced by the policies of the Reserve authorities. A reduction in reserve requirements by the Reserve Banks would automatically increase the demand for short- and medium-term obligations on the part of the commercial banks. Whether or not legislation will be passed giving the Board of Governors of the Federal Reserve System the power to regulate the investments of insurance companies and other institutional investors, in addition to those of the member banks, is as yet not known.

It is, therefore, clear that the supply of capital seeking an outlet in bonds and mortgages is large and can be increased by the policies of the Reserve authorities and the agencies and trust funds operated by the Federal Government. Corporations seeking capital through the sale of fixed-income-bearing obligations should, therefore, be able to find an adequate supply of capital.

There is, however, a limit to which a corporation is able or willing to increase its indebtedness. While the ratio of indebtedness to total capital varies from industry to industry, yet it is evident that even in the case of utilities there is a point beyond which a corporation is not willing to go. Hence, the ability and willingness of an individual corporation to expand does not depend only on its being able to obtain long-term capital represented by bonds and mortgages but also on its ability to obtain equity capital. When equity capital is scarce, enterprises are less willing and able to increase their total capital and expand their operations. The lack of equity capital has been an outstanding development of the past few years. It is a problem of the utmost importance not only to investment bankers and to industry but to the economy of the country as a whole.

Reasons for the Lack of Equity Capital

As is evidenced by the constant growth of retained profits by corporations, the supply of new equity capital from internal sources has increased during the last few years. There has, however, been a decided decline in the external sources of equity capital. This is not due, as is generally believed, to the lack of savings. On the contrary the liquid savings of the people are today much larger than before the war; total savings are indeed impressive. This may be seen from Appendix III.

What has taken place, however, is a striking change in the type of savers and in the character of savings. Before income taxes became burdensome the principal buyers of equities were individuals in the higher income brackets. As a rule, they were in a position to save a portion of their earnings, and much of the savings went for the purchase of equities. At present, however, most salaried individuals have little left after paying taxes, contributions to pension funds and insurance premiums, and hence are not as able as formerly to buy equities. This is probably the principal reason for the lack of equity capital from external sources.

The large savings indicated in the attached table are to a large extent owned by those individuals or non-incorporated firms that, as a general rule, are not buyers of shares. They include, primarily, farmers, highly skilled workers and individual merchants and manufacturers. So long as these groups refrain from buying equities, or buy only infinitesimal amounts, there is bound to be a lack of equity capital from external sources.

An analysis of the type of liquid savings is also of considerable interest. The figures show that the owners of these savings prefer to hold mainly cash or bank deposits. In part, this situation probably represents an effort to avoid taxes. On the whole, however, it reflects uncertain economic and political conditions, resulting in a temporary postponement of investing and spending. The substantial increase in life insurance policies indicates that savings are becoming more and more institutional in character. This tendency will undoubtedly continue, thereby furnishing adequate amounts of capital to be invested in bonds and mortgages. The figures also reveal that many individuals are using more of their savings to purchase houses and durable goods. This is due to the accumulated demand for these goods created during the war, but also to the considerable rise in living standards.

The change in both the type of savers and the character of investments preferred by individuals has had a pronounced effect on the capital market. It has accentuated the demand for bonds and mortgages and contributed to the prevailing low money rates, although the principal factor making for cheap money is the open-market policy of the reserve banks and the liquidation of government securities by institutional investors. The change in saving habits has also accentuated the lack of equity capital and forced industry to rely increasingly on internal sources, hence preventing distribution of dividends commensurate with the earnings of corporations. The consequences of the change in savings may briefly be analyzed as follows:

(1) To a considerable extent it is responsible for the failure of the equity market to respond to the earnings of corporations and to reflect the permanent depreciation of the purchasing power of the dollar. As a general rule, when a decline in the purchasing power of the currency is considered permanent, this has a favorable effect on the prices of equities. This is partly because many individuals look upon equities as a hedge against inflation, partly because it is realized that the capital assets of corporations are undervalued, and partly because over the long run higher prices lead to a larger volume of business expressed in dollars and hence to larger net profits. Because many individuals who formerly were buyers of equities do not have the necessary funds, however, the market has failed to reflect these developments.

(2) The lack of equity capital also contributed materially to the abnormal spread between the return on bonds and stocks, which today is higher than before.

(3) The shortage of venture capital has led to a considerable increase in the indebtedness of business concerns, as regards not only long-term bond indebtedness but also short- and medium-term indebtedness to the banks. It is in part also responsible for the sharp increase in the volume of term loans by banks.

Were it not for the internal sources of equity capital, the drying up of external sources would undoubtedly have had a marked effect on the ability of industry to expand and to modernize its equipment in order to meet the increased post-war demand. So far, the lack of external equity capital has not had an adverse effect on business expansion, primarily because corporations have retained a large portion of their earnings and partly because they have been willing to borrow heavily, especially since during the war private indebtedness decreased materially. It is, however, highly doubtful whether business concerns will be willing to increase their indebtedness further from the present level.

Is There a Solution to the Problem of the Lack of Equity Capital?

Since the lack of equity capital from external sources is due primarily to the changes that have taken place in the type of savers and in the habits of the saving public, the solution lies either in increasing the ability to save of individuals who were formerly the traditional buyers of equities, in tapping the resources of the new savers, or in inducing the institutional investors to acquire equities. An increase in the ability of the traditional buyers of equities to save could be accomplished by the following measures:

(1) The elimination of double taxation on corporation earnings. Such a measure would make equities more attractive, particularly to wealthy individuals who are at present primarily buyers of tax-exempt securities.

(2) A change in the present income tax laws that would enable the individual to retain more of his earnings. It is not likely, however, that either of these measures will be taken in the immediate future. Therefore, an increase in the supply of equity capital resulting from tax reforms is not to be expected.

(3) It is possible, however, that the Board of Governors of the Federal Reserve System may pass a rule enabling stockholders to borrow from the banks beyond the present limit of margin requirements in order to take up new stocks offered by corporations. It is not uncommon for directors of companies to vote against the offering of new shares by a corporation, primarily because of their inability to take up their own portion. If, however, they were able to borrow from banks beyond the limit of the present margin requirements their objections might be removed, because they could acquire their allotment of the shares and make sure that their equity interest would be undiminished.

(4) It might be advisable for the Investment Bankers Association to give careful study to the question of how the savings of the new owners of substantial amounts of liquid assets could be tapped for the equity market. The adoption by corporations of a consistent dividend policy would be of material help in the distribution of equities among these persons. Most of them are primarily interested in a steady income. Their hesitation to buy equities is partly due to the fear of loss, but also to the fear that the income might not be constant. Corporations, such as the American Telephone and Telegraph Company, which have maintained a constant dividend policy over a period of years do not find it difficult to distribute their shares among individuals who generally are not buyers of equities. It goes without saying that the tapping of

the savings of the new savers might involve considerable enlargement of the personnel of institutions engaged in the distribution of securities.

(5) Finally, considerable study and thought have been given to means of tapping the resources of the insurance companies for the purpose of equity financing. Since the assets administered by life insurance companies are bound to increase considerably in the future and since, once the pressing need for housing and industrial expansion has been met, a situation may arise where the supply of capital seeking an outlet in the bond and mortgage markets may be larger than the supply of bonds and mortgages, it is evident that both companies in need of equity capital as well as the executives of life insurance concerns are vitally interested in this problem. In order, however, to make available a portion of the resources of large life insurance companies for the purchase of equities, it would be necessary not only to make important legal changes in many States but also to alter considerably the valuation system which life insurance companies have to follow. In addition, the purchase of equities by life insurance companies raises a great number of other problems which, to my knowledge, have so far not been solved.

One may therefore state that the solution of the problem of equity capital from external sources depends primarily on Congress, which has the power to alter the tax laws. It is not likely, however, that any remedial tax legislation will be passed in the near future. The only thing the investment banking profession can do to broaden the equity market and to increase the supply of equity capital is to tap the resources of the new savers which, admittedly, is not an easy task. However, it can be done and the job certainly rates the closest attention of the investment banking fraternity.

Increasing Equity Capital from Internal Sources

Internal sources of equity capital could be increased primarily by the following action of Congress:

(1) Modification of the Revenue Act to liberalize depreciation allowances. As is well known, the current depreciation reserves are based on original cost. However, to replace obsolete equipment today costs from 2½ to 3 times more than formerly. A corporation that wishes to replace obsolete equipment therefore not only has to use up its depreciation reserve but also to add a still larger amount either out of earnings or borrowings or the sale of equity capital to the public. Because the need for plant modernization is great, it would be advisable if the Congress were to change the present depreciation reserve provision of the Revenue Law to permit larger reserves based more on replacement than on original cost, provided the company utilizes the funds so retained for capital investments within a given period of time. Such a liberalization of the Revenue Act would stimulate the acquisition of modern machinery and equipment and would contribute to maintaining business activity at a high level.

(2) It would be desirable to modify Section 102 of the Revenue Law to permit corporations to set up a dividend reserve in order to enable them to establish a consistent dividend policy. They would then not be subject to the penalties under Section 102 if they paid out only a small fraction of their earnings in one year provided the sums set aside for a reserve were paid out in dividends during a specified period of time.

(3) Both individuals and corporations would benefit if the capital gains tax were to be modified to provide a lower rate on profits which are incidental to an individual's or a corporation's business.

Since it is evident that the formation of equity capital plays a very important role in the economic development of the country, it is of the utmost importance that Congress study this problem carefully, with a view of stimulating capital expenditures not only at present, when the demand for capital goods is great, but particularly in the future, when the most pressing pent-up demands for capital goods have already been met and the country depends more on current demand.

Summary and Conclusion

There is a definite relationship between the availability of equity capital and a dynamic economy. Whenever the supply of equity capital is stagnant, the expansion of industry is retarded, and eventually the result is a decline in business activity and an increase in unemployment. The demand for capital in the United States is very large at present and will continue to be so for some time. While there is ample supply of capital, primarily owned by institutional investors such as insurance companies, seeking outlets in bonds and mortgages, there is a definite lack of funds seeking an outlet in equities.

During the past few years the principal source of equity capital has been the plowing back of earnings by corporations. The imposition of an excess profits tax or an increase in corporate tax rates would automatically contract this source of capital and undoubtedly lead to a decline in the demand for producers' goods.

Because a dynamic economy requires an adequate supply of equity capital, Congress should give careful consideration to measures that might lead to an increase in the supply of such capital. A revival of the flow of equity capital from external sources could be achieved by the removal of double taxation on dividends, by modification of the capital gains tax, and by a general reduction in income taxes. Since expenditures by the Federal Government during the next fiscal year are bound to be very large, however, none of these measures is likely to be adopted by Congress.

In order to increase the supply of equity capital from internal

(Continued on page 32)

APPENDIX I

§Estimated Principal Uses and Sources of Corporate Funds

	In Billions —of Dollars—		As Percentage —of Total—	
USES—	1947	1946	1947	1946
Plant and equipment expenditures	14.7	11.6	56	43
Inventory accumulation	6.7	7.5	25	28
Increase in customer financing	5.1	5.4	19	20
Federal income tax payments in excess of allowances	0.0	2.5	0	9
Total	26.5	27.0	100	100
SOURCES—				
Internal, total	14.9	16.8	56	62
*Funds retained from operations	14.4	10.4	54	38
Reduction in liquid assets	0.5	6.4	2	24
External, total	11.1	9.0	42	33
Bank loans	3.0	3.3	11	12
Security issues and mortgages	4.8	2.7	18	10
Trade credit	1.0	3.0	4	11
Federal Government for income taxes due	2.3	0.0	9	0
Other net sources and statistical discrepancy	0.5	1.2	2	5
Total	26.5	27.0	100	100

§Excludes banks and insurance companies. Also, in contrast to certain figures quoted in later sections of the article, excludes unincorporated enterprises. *Profits, after income taxes and cash dividends, plus depreciation allowances.

SOURCE: Department of Commerce—Federal Reserve Bulletin, June, 1948, p. 616.

APPENDIX II

§Business Financing Through External Sources of Funds

(In Millions of Dollars)

		*New Capital Security Issues			†Net Change in Estimated Business Loans of Comm'l	Per Cent of Total New Capital Security Issues		
Year	Total	Common Stocks	Pref'd Stocks	Bonds & Notes	Banks	Common	Pref'd	Bonds & Notes
1929	6,417	2,302	1,517	2,598	—1,250	36	24	40
1930	4,712	978	412	3,322	— 420	21	9	70
1936	1,202	249	90	863	+ 670	21	7	72
1937	1,225	203	205	817	+1,370	17	17	66
1941	1,062	79	94	889	+2,470	7	9	84
1943	378	37	55	286	—2,690	10	15	75
1944	663	81	133	449	+ 500	12	20	68
1945	1,264	226	430	608	+ 130	18	34	48
1946	3,546	718	742	2,036	‡+3,650	20	21	59
1947	4,749	616	589	3,544	‡+5,800	13	12	75

§From a study by Mr. Stanley Miller in "The Harvard Business Review," November, 1948. *Excludes investment company issues. Figures for common stock issues have been adjusted to exclude all new stock issues of the investment companies since a breakdown of the latter into preferred and common stocks is not available subsequent to 1924. †Based on business loans of national banks as estimated by the National Bureau of Economic Research; rounded to nearest ten million dollars. ‡Term loans to corporations estimated at $1.4 billion.

SOURCE: New issues, "Commercial and Financial Chronicle"; business loans of commercial banks, estimates by the Federal Reserve Bank of New York based on National Bureau of Economic Research estimates of business loans of national banks.

APPENDIX III

§Saving by Individuals in the United States 1940-1947*

(Billions of Dollars)

Type of Savings—	1940	1941	1942	1943	1944	1945	1946	1947
1. Currency and bank deposits	+ 2.9	+ 4.9	+10.9	+16.1	+17.5	+19.0	+11.9	+ 3.3
2. Savings and loan associations	+ 0.2	+ 0.4	+ 0.3	+ 0.6	+ 0.8	+ 1.1	+ 1.1	+ 1.2
3. Insurance and pensions reserves	+ 3.1	+ 4.0	+ 5.0	+ 6.8	+ 8.2	+ 8.5	+ 6.9	+ 6.6
a Private insurance	+ 1.8	+ 2.1	+ 2.5	+ 2.9	+ 3.2	+ 3.5	+ 3.4	+ 3.2
b Government insurance	+ 1.3	+ 1.9	+ 2.5	+ 3.9	+ 4.9	+ 5.1	+ 3.4	+ 3.4
4. †Securities	— 0.1	+ 2.9	+10.4	+13.7	+14.9	+ 9.6	+ 1.0	+ 4.6
a U. S. savings bonds	+ 0.9	+ 2.8	+ 8.0	+11.1	+11.8	+ 6.8	+ 0.9	+ 1.8
b ‡Other U. S. Government	— 0.3	+ 0.7	+ 2.4	+ 3.1	+ 4.0	+ 3.7	*	+ 1.3
c State and local government	— 0.4	— 0.3	— 0.2	*	— 0.1	— 0.2	— 0.4	+ 0.3
d Corporate and other	— 0.2	— 0.3	+ 0.3	— 0.5	— 0.8	— 0.7	+ 0.4	+ 1.2
5. ¶Liquidation of mortgage debt	— 0.9	— 0.9	— 0.1	+ 0.3	+ 0.1	— 0.2	— 3.3	— 3.8
6. ††Liquidation of debt not elsewhere classified	— 1.2	— 1.0	+ 3.3	+ 1.3	— 0.2	— 1.1	— 3.2	— 2.9
7. Total liquid saving	+ 4.1	+10.3	+29.9	+38.8	+41.3	+36.9	+14.4	+ 8.9
8. ‡‡Nonfarm dwellings	+ 3.1	+ 3.6	+ 1.9	+ 1.1	+ 1.0	+ 1.1	+ 3.9	+ 5.5
9. ¶¶Other durable consumers' goods	+ 7.9	+ 9.7	+ 6.8	+ 6.5	+ 6.8	+ 8.0	+14.9	+19.8
10. Total gross saving (7+8+9)	+15.1	+23.6	+38.6	+46.4	+49.0	+45.0	+33.2	+34.2

§Includes unincorporated business saving of the types specified. Does not includes corporate or government saving. Considerable revisions have been made in some of the series.

†Does not include net purchases by brokers and dealers or by other individuals financed by bank loans.

‡Includes Armed Forces Leave bonds.

¶Mortgage debt to institutions on one-to-four family nonfarm dwellings.

††Largely attributable to purchases of automobiles and other durable consumers' goods, although including some debt arising from purchases of consumption goods. The other segments of individuals' debt have been allocated to the assets to which they pertain, viz., saving in savings and loan associations, insurance and securities.

‡‡Construction of one-to-four nonfarm dwellings less net acquisition of properties by nonindividuals. Also includes a small amount of construction by nonprofit institutions.

¶¶Consumers expenditures on durable goods as estimated by the Department of Commerce.

*Securities and Exchange Commission, March 31, 1948.

NOTE: Figures are rounded and will not necessarily add to totals. Asterisk (*) indicates less than $50 million.

Current data are necessarily estimates and, therefore, are subject to revision.

The Outlook for The Capital Market

(Continued from page 31)

sources, it is desirable that Congress consider modifying the present depreciation allowance and liberalizing it for companies which reinvest the added depreciation reserves within a stated period of years. It might be advisable to amend the Revenue Act to permit corporations to spread their earnings over a period of years in order to be able to follow a consistent dividend policy without becoming liable under Section 102 of the Revenue Law. The Board of Governors of the Federal Reserve System should also consider easing the present margin requirements on security purchases to permit individuals to borrow from the banks beyond the present limit in order to take up their allotment of new shares offered by corporations.

The investment banking profession itself could broaden the supply of equity capital by tapping some of the large liquid assets held by individuals who are not as a rule buyers of equities. The adoption of a consistent dividend policy by corporations would induce many individuals who are dependent on income to acquire common shares more readily than is the case today.

Says Insurance Companies Threaten Wall Street Set-Up

Bertram B. Tate writes Congress members practice by insurance companies of purchasing large issues of securities threatens to destroy securities business.

The possible ruin of the Wall Street brokerage and stock exchange setup of today looms as a possibility unless big insurance companies are not, in some way, curbed from the practice of taking over multi-million dollar securities issues or exclusive participation in other business deals.

This was the warning of Bertram B. Tate, a former Wall Street underwriter, now a prominent realtor in Babylon, Long Island, who disclosed the contents of a letter he had written to members of Congress on the question of lack of new public interest in securities and bond investments.

"The foundation of our democratic way of life, from the economic angle, is free enterprise and that is in turn based on public ownership of shares in various commercial organizations, large and small," Tate wrote.

"It has been the trend for some years now for the tremendous insurance companies to have an inside track on purchasing new large issues of securities also handled in many instances by good, going concerns anxious to have money for legitimate expansion selling properties to the insurance organizations and in turn leasing same back on long-term agreements.

"Where is the stock broker and the members of the public under such an arrangement? Instead of giving members of the general public a chance to invest savings in fine, safe shares of going businesses, it leaves them an opportunity frequently to only buy lesser 'bets.' Also, unless the stock 'dealers' who make honest livings out of selling shares to Mr. and Mrs. John Q. Public wake up, they will be out of business before they know it.""

Bond Pegging Source of Inflation

(Continued from page 21)

that our national prosperity might be suddenly undermined by the shock to confidence, unsettlement of the bond market, and a consequent tightening of credit. But since no one seriously proposes such complete withdrawal of support as to create chaos in the bond market, this fear of the effect of a change in the support level must be regarded as a "psychological argument" of the sort which builds itself up by long repetition and assiduous waving of the scarecrow. Nevertheless, it deserves primary consideration. A collateral argument frequently heard is, that a sharp drop in support prices might lower Government credit in public esteem and conceivably cause an unreasoning panic among holders of savings bonds, discouraging further purchases and possibly precipitating large scale cashing of savings bonds. The case for continuing support prices unchanged becomes very compelling when it is draped in robes of State, as has been done repeatedly by stressing the need for keeping our national credit undisturbed so long as we are closer to war than to real peace. Underlying all these arguments is the excuse that other policies, such as farm price supports, liberal mortgage and other building credits, and high Government spending generally, are inflating much more directly than the bond pegging policy.

Our Committee Views

Venturing beyond mere review and summation of the argument, we have asked ourselves what we would do if as officials of the Treasury and the Federal Reserve System we were faced with the responsibility of deciding debt management policies for the best interests of the nation. This is a continuation of our practice in six previous reports to the Governors of the Investment Bankers Association since 1946.

It appears that if our decisions were governed by a majority vote of the Committee members, even in restrospect we would have made no great changes in the main policies of debt management followed since July, 1947. Despite all the criticism against the principle of supported markets which is heard in financial circles, other surveys of banking and investment opinion have agreed that when the chips are down, a majority of commercial and investment bankers across the country have favored and hoped for the success of the bond price pegging which has been the central fact of debt management policy.

In our Committee views there is this significant change: we have lost our unanimity in favor of pegging. A minority of us now believe that the pegging has been too stubborn, that there was a time back in June while the pressure was off the pegs, when it would have been a good thing to back away a little to lower support prices in order to penalize the second wave of switching out of long Governments into other investments.

Underlying this whole problem of whether a drop in the support price is advisable, is the fact that in terms of the billions of bonds which may be for sale there is no commensurate ready demand or buying power outside the Federal Reserve, other than in the savings and insurance institutions which themselves have been the heaviest sellers. Therefore, either the Federal must stand by at some price, or the level must be let down enough to stop most of the selling. There is also the possibility that a slight lowering of price, by suggesting a change of policy, might in itself induce a flood of unnecessary selling aimed solely at escaping a greater market loss. For this reason, if we should at some stage decide upon the necessity of lowering the pegs, your Committee if clothed with authority would drop at once to the price at which we think liquidation would be pretty well dried up although not completely stopped.

But to return to reality, the price pegs having been held to this stage and in view of conditions as they are now, we are split on whether to continue the support policy unchanged. As a Committee we probably would conclude that nothing should be done pending a good long look at business prospects over the year-end. It does appear, however, that the recent revival of buying interest in Government bonds may offer another opportunity as in June to retreat just a little on support prices, in order to snap the psychosis of "rigidity or nothing" in which the market has been held since last December.

With the passage of time we have lost some of our fears of the effect upon savings bond holders of dropping marketable bonds below 100, and a majority of us now think we could go down at least to 98 without inducing any great amount of savings bond cashing.

As of the second week of November, we are nearly unanimous in holding that monetary and debt management policies should be shaped in anticipation of continued inflationary pressures in our economy. To that purpose, higher interest rates are an important factor in containing inflation, although necessarily supplemented by quantitative controls. We do unanimously favor still further moderate increases of rates on Treasury bills and certificates, continuing the trend begun 18 months ago; because these increases have been a factor in stiffening bank credit to a very helpful degree.

An almost inescapable corollary of the bond support policy is that actual and optional maturities have been and are being refunded into very short issues, usually one-year certificates. So long as interest yields on Government securities lean heavily upon price pegs rather than being determined by the free play of market conditions, it is admittedly difficult to scale in middle-term maturities without creating new problems of market support. While the present proportion of very short maturities is not dangerous in our opinion, we do believe that as bond market price levels adjust to the pegs, or vice versa, the earliest possible start should be made upon refunding bond options especially into longer notes and short bonds. By such offerings the Treasury can help to hold the broad and stable investment interest which is one goal of debt management policy. It should be possible to do much in this direction without greatly exceeding the relationship of intermediate to long term rates on which the wartime loans were issued.

Treasury Savings Bonds

While attention has been focussed on the pros and cons of price supports for marketable Treasury bonds, the savings bond issues have rocked along apparently unaffected by the controversy. Last July's successful special offering of Series F and G bonds may have been helped by doubts about the continuance of price support of the marketable issues; but the purchase limits on savings bonds bar any large funds from such a refuge, and the interest rates available on bills, certificates and short bonds are far better than on short term holdings of savings bond or savings notes, even after the August adjustment of yields on the savings notes. It has been feared that the threat of below-par prices for marketables would cause cashing of savings bonds; but this has not appeared. On the contrary, some savings bond investors have been wondering why they should accept the lower short term rates on savings issues when the market risk is managed out of Treasury 2½s by their support above 100.

Despite the relative handicaps of low short term yields, notice periods required for redemption, and lack of collateral value, sales of savings bonds thus far this year have exceeded redemptions by a one-third greater margin than in the comparable period of 1947. After slumping to a billion dollar net redemption in 1946, Series E recovered to show net sales of $174 million in 1947, and in the first 10 months of this year has netted $400 million. Sales of Series F fell off in 1946, but continued to show a sizable net. Series G held its wartime sale level almost unchanged through 1946, slipped 20% in 1947 and has almost recovered this year. A very important factor in this good showing, however, was the special offering of Series F and G bonds during July, when the annual sale limit for 1948 was temporarily lifted from $100,000 to $1,000,000 available to insurance companies and savings institutions. Sales under this special offering amounted to $226 million Series F and $900 million Series G. The three issues or series combined netted $1 billion over redemptions in

1946, $1.5 billion in 1947 and $2 billion in 1948 through Oct. 31. (All figures exclude interest accruals and the combined totals are net after redemptions of Series A, B, C, and D, which are earlier issues corresponding to the present Series E.) These results reflect the continued rise of national income — full employment and high earnings. The fact that the showing is if anything better than that of savings institutions in maintaining deposits, is a testimonial to the untiring efforts of a small group in the Treasury's savings bond division and in various field offices, who have had to work very largely through volunteers and on contributed advertising.

So long as inflation runs unchecked, it is important to stimulate saving and wider ownership of savings bonds, against the inevitable economic reversals to come.

Your Committee believes that the Treasury should adopt a more expansive policy toward the savings bond campaigns such as the one begun an Armistice Day. Advertising and publicity programs should be broadened at Treasury expense. Certainly, no one in the financial world wants to profit in this work, but there is no good reason to expect the acceptance of our-of-pocket expense losses just because that was done in wartime.

Making Savings Issues More Attractive

In light of the fact that the accrual rates on savings bonds stand unchanged while other investment yields including those on short marketable Treasury issues have risen, we further recommend: first, that the annual sale limits on savings bonds might well be doubled without the reproach of giving anything away; and second, that inducements should be offered to encourage the extension of investment beyond the present maturities of savings bonds. Consideration of extension offers will become more pressing as the maturities of Series E bond issues increase, especially after 1951. Specifically, as an alternative to reinvestment through the purchase of another bond of identical terms, we would offer those who hold to maturity the right to exchange for a current income series of equal rate and perhaps longer maturity. That is, the holder of a Series E bond might exchange at maturity for a 10-year bond (perhaps it should be 15 or 20 years) bearing interest at the full E maturity rate of 2.90%, which would be redeemable at the holder's option with accrued (not compounded) interest calculated at 2.90% per annum to the first of the month preceding redemption. The holder of F or G bonds, in consideration of the larger annual purchase limits, should be content with a continuance of the 2½% rate, but without loss of income through redemption prior to maturity; that is, the 2½% rate would apply for any period held beyond the present 12-year maturity up to another 12 years, but only on bonds issued to refund at maturity the issues now outstanding.

Secondly, we believe that holders of the discount bonds who forego current income for 10 to 12 years, deserve the privilege of permission to treat the accrual, if held to maturity, as capital gain rather than current income. As it is now, the accident of maturity in a "good" year for the individual holder may mean that very little "income" remains to reward his patriotic loan, as compared with the acceptance of the income spread annually over a long period. As a safeguard against deliberate abuse, the tax choice should be extended only to those who hold to maturity. This suggestion, originating in your Committee, has already been rebuffed by the Treasury; we believe it merits reconsideration.

While we appreciate that a great deal of study must precede any changes in the now well established terms of savings bonds, we are agreed that some strengthening of their appeal is warranted as an inducement to renew maturities of such bonds.

Before leaving this subject of savings bonds, the caution should be expressed that we in the financial industry must not permit ourselves to be guilty of venting upon this department of Treasury finance the impatience which we sometimes feel with general fiscal policy. It is charged that the call to fight inflation by investing in Treasury bonds rather than spending is completely inconsistent with other Administration actions which have steadily boosted the cost of living, thus reducing the savings value of bonds. While that is apparent, it must be admitted that savings bonds, although declining in relative attractiveness as investments, still offer unquestioned security, and that no other generally available fixed income investment promises to pay back any more in purchasing power than does the savings bond of comparable maturity.

Regular Debt Retirement

There is a third division of the subject of Government debt management within the usual scope of our comments: namely, whether a statutory sinking fund should be set up for the retirement of our $250 billion present national debt. Many authoritative opinions, including discussions in the finance committees of Congress, have centered around something like 1% of the debt as an annual goal under present conditions. So far no budgetary appropriation has been made for the purpose, but in fact retirement has exceeded that figure as an average over the past three calendar years.

In the 1948-49 fiscal year, no administrative surplus for debt retirement is expected, but a substantial amount can probably be taken into the Social Security trust funds. This has given rise to some recent argument that Treasury trust fund accruals should be accepted as a sufficient "retirement" of publicly held debt—perhaps the final refinement of the concept "that we owe it to ourselves."

Your Committee holds that, as a matter of debt management policy, the shift of debt from general ownership to the trust funds is not adequate provision for retirement, certainly so long as the total of national debt stands so far above any reasonably expected reserve fund for the Social Security accounts. The tendency will be toward smaller annual net accruals to these accounts, as payments are liberalized and increase through passage of time. For these reasons we subscribe to the policy of administrative budget appropriations for actual debt retirement. Such provisions will vary with changes in national economic conditions, and at times may be reduced to relatively token payments because of the deflationary influence of any important net retirement. The debt may be increased in future periods of depression. But in any event the progress toward debt retirement should be maintained, by administrative budget sinking fund appropriations ranging up to 2% a year and as a goal averaging 1% a year, of the present debt.

Review

In review, we of your Committee approve the principal trends of Treasury and Federal Reserve debt management policies. They have not been as anti-inflationary as now appears to have been desirable — perhaps the monetary managers would confess as we do to some second thoughts—but on the whole our criticism, as before, is mainly that wartime easy-money policies were carried too far into a peacetime boom period. Also, the bond support policy would have been much more defensible if the first pressure had been allowed to carry long bonds a little below 100 before the pegs were driven in. At that time, with credit expansion proceeding rapidly, the effect of a discount price might have been to impose some desirable restraint.

This present moment is another of those times when the broad interests of the country indicate a cautious rather than a bold approach to any major change of policy in a field so all-embracing in effect as national debt management. Buoyant confidence rather than nervous apprehension must be the background for any shift toward firmer repression of credit inflation. Whether such renewed concern about inflation is to plague us, will be greatly influenced by the Administration's policies in budgeting for expanded defense costs and social programs.

Respectfully submitted,

Governmental Securities Committee

Delmont K. Pfeffer (Chairman); Robert B. Blyth; Russell M. Colwell; Russell A. Kent; George B. Kneass; Francis M. Knight; Winston L. Molander; Robert H. Moulton; Aaron W. Pleasants; L. Summer Pruyne; Herbert N. Repp; Rudolf Smutny; George F. Spaulding; J. W. Speas.

Secretary Snyder Says Bond Support Program Helps Municipals

Points to Treasury's interest rate control as maintaining stability in municipal bond market, as well as keeping up value of $8 billion of U. S. Bonds owned by municipalities.

In a talk before the American Municipal Association in Washington on Dec. 15, Secretary of the Treasury John W. Snyder called attention to the effect of the Treasury's firm support of government bond prices in stabilizing the market for municipal issues. The Treasury Secretary pointed out that in view of large holdings of Federal securities by municipalities, "they have a most important common interest with the Federal Government in the problems involved in the management of the public debt.

John W. Snyder

"State and local governments," Mr. Snyder said, "are one of the most important groups of investors in the purchase of Federal securities. At present you own nearly $8 billion of such securities—some 3% of the total Federal debt. Nearly $6 billion of this amount is owned by State governments and the remainder by city, county and other local government units.

"It is a new development in our economy for State and local governments to hold $8 billion of Federal securities. Before the war, you owned only about $1½ billion—and 15 years ago, no more than $100 million. The increase of pension and trust funds has been an important factor in this expansion. A substantial amount of Federal securities is also used for sinking funds.

"The largest amount, however, is accounted for by those investments which will eventually be used for capital outlays, such as schools, public buildings, bridges, roads and other types of local improvements. These funds were accumulated, in general, during the war, when expenditures for public purposes and improvements had to be deferred because of the shortage of manpower and materials.

"The effect of Federal debt management on your financing costs is of great importance to you. Because the debt is so large, our debt management policies have a wide effect in setting the pattern for interest rates generally. Many of our policy decisions over the past few years have been specifically reflected in the municipal bond market.

"Prices and yields of municipal bonds, of course, are strongly affected by income tax rates and by anticipated changes in such rates, as well as by the usual bond market factors. During the past two years, the great supply of new municipal issues coming into the market has been a depressing price influence. New state and municipal flotations last year were far above any previous record and in the first 10 months of this year they have already exceeded last year's total. A huge volume of corporate bond issues for new capital, which likewise far exceeds any previous record, has offered strong competition for available investment funds.

"Despite these depressing influences, prices of municipal bonds have rested on a generally stable foundation since the early part of this year, reflecting the firm market support policy adopted by the Treasury and the Federal Reserve for maintaining stability in the Treasury bond market."

Investment Banking And the Future

(Continued from page 19)

vent us from decaying in the midst of our good fortune.

The present administration has repeatedly expressed itself in favor of reducing the national debt.

Finally, the vote is an expression in a free economy between representatives of two responsible major political parties which have espoused many of the same fundamental theories. A third party, representing views which were unfriendly to our basic concepts of good government, was hopelessly defeated.

Anti-Trust Suit

More than a year has passed since the Department of Justice brought action against 17 of our member firms and against the Association itself. The passage of time, however, has not diminished the force of this action, nor has it provided a decision. Those of you who are not directly involved as a member of the firms named, but only as a member of the IBA, should be informed of this suit. Most of you know that we and the 17 defendant firms served Interrogatories on the Government, which accompanied our answers to their complaint. The Interrogatories were designed to secure from the Government more specific information about the alleged conspiracy. On June 10, Judge Medina directed the Government to answer about 50 of these Interrogatories within 60 days. After an extension of time, the Government on Sept. 14 filed partial answers which disclose, among other things:

(1) That the Government will claim that all present and former members of the IBA, its Board of Governors, standing committees, and groups are co-conspirators; and

(2) That the Constitution and By-Laws of the Association, its reports and actions of meetings, Boards, and Committees are among the agreements upon which the Government will place reliance to prove the conspiracy.

Our counsel advises me that we are still not entirely satisfied with the adequacy of the Government's answers and that further effort will be made to require the Government to be more responsive and more specific. The Government intends to take additional depositions in the interest of effecting further pre-trial discovery, all of which indicates that it will be many more months before the case comes to trial.

My purpose in giving you this information regarding the status of the anti-trust suit is not to cause you any additional loss of sleep in these otherwise hectic days but to make it perfectly clear that all of us are involved. I can assure you that, with Murray Hanson directing our defense in collaboration with Mr. Hugh Cox, our case is in excellent hands.

As the case of the Government against the Association has unfolded, it appears even more unlikely that the court could uphold charges which to us appear so remote from reality.

Furthermore, the large amount of unproductive energy and expense to which the 17 firms and the Association are subjected imposes an unnecessary burden on a business which should be directing all its ability and efforts towards the financing of American industry.

I repeat my statement of a year ago. The charge against the Association seems to me wholly unwarranted, and we will conduct our defense without compromise and with the utmost vigor.

Competitive Bidding

And now my favorite subject—competitive bidding, which I have discussed at most of our meetings while traveling around the country. Much has been said about competitive bidding on corporate securities, and we are constantly asked why the Association does not do something about the problem. One reason we are already involved in an anti-trust suit is because we expressed our collective opinion on the subject. We still, however, have a free choice as individuals, and I believe we may find a solution if we are willing to look the facts squarely in the face.

In an effort to get specific information on the subject, studies have been made available regarding the results of competitive bidding activities of one firm for the period from Jan. 1, 1948, through Nov. 22, 1948.

During this period, the firm participated in exactly 100 accounts which were formed to bid on corporate issues. Of this number, they were among the successful bidders in 19 instances. Once in five times, or, in terms familiar to followers of baseball, the batting average was less than 200. Yet they were up there swinging day after day, running the bases, and dirtying up their uniforms, with nothing better than a minor league average.

It should be mentioned also that the firm studied had capital assets slightly under $400,000 and that the liabilities and risks accepted in joining each of the 100 separate bidding accounts ranged from $200 to $800 thousand.

What is more important is that the gross profit, after deducting losses, on the 19 issues purchased was $16,350, before applying administrative expense, salesmen's compensation, rent, heat, communication, and general overhead.

Because most of these costs, except salesmen's compensation, are to be distributed among the full 100 issues, whether successful or not, the gross profit of this firm's experience was $163.50 an issue, but because this figure comes up in black ink on balance the conclusion could be reached that a little money had been made in competitive bidding. Nothing could be more deceptive, however. The apparent profit of $163.50 an issue would scarcely pay the cost of the administrative efforts, including endless paper work, price meetings, and statistical study, to say nothing of the communications costs and preliminary effort and the diligence necessary in all competitive efforts.

Expressed another way, on the 19 issues in which this firm was the successful bidder, the gross profit before expenses was at the rate of $3.53 per $1,000 of liability. Applying the results to the 100 issues in which the firm had participated, the gross rate of profit was 71¢ per $1,000 of liability before deducting expenses.

Now comes the cost accounting. By applying the most conservative estimates of administration and office overhead, the cost of registering a profit of $16,350 on this firm's books was $20,500, or a net loss of $4,150, which is at the rate of 95¢ of red ink for each $1,000 of liability assumed. Only the anticipation of better days could encourage a firm to continue to engage in a business reporting these results.

This example may not be typical. I think it is, and I think it may be even better than many.

What concerns me most is that the pattern in bidding for corporate issues is so different from the customs which have been established in bidding for municipal securities. The difference lies principally in our judgment of risk because those who bid on corporate securities do not appear to have established a convincing record in the measurement of their risks.

You have seen at least one demonstration that competitive bidding on corporate securities as now practiced needs periodic examination. I urge you to make studies of your own results, using accepted cost accounting methods, and I promise you that you will eventually become advocates of reform. What is that reform? This is a study in itself. In these 20 minutes it is impossible to discuss new procedures. They are too involved.

We have now had enough experience, however, with competitive bidding to warrant a reexamination of our methods—the sooner the better.

So much for competitive bidding.

What of the Future

Now, an appraisal of the future. Our business is surrounded by opportunities and obstacles. We are told that there is too much money in the economy today. Never before in history have the capital needs of industry been greater and never before in our history have individuals possessed liquid assets in such abundance. Why, then, are we not realizing our full share of the current prosperity?

Industrial averages of stock prices are now near the Japanese surrender level, in August, 1945, whereas most commodities are still more than 50% higher than they were at that time.

The outlook for this business has been dimmed by the prospect of high taxes, reducing both spendable and investable income. It has been dimmed also by the trend toward profit margins which do not adequately compensate investment firms for the risks they take nor do they make it possible to compensate sales effort in small units in a broadened market. It has also met discouragement because of the growing disposition of individuals to entrust their savings to institutional investors.

Venture Capital

We have heard a great deal lately about the importance of directing the flow of capital into equities. We know from experience, moreover, that the purchase of equities is more favorable to investors when ratios of price to earning are low as they are today. If we are to realize our ambition to expand markets for new capital through the sale of equities, it is to be hoped that the enthusiasm of the investing public will assert itself now when ratios are low and prices for shares appear favorable. Many industries are selling in the public markets today at substantially less even than net current assets.

The shortage of venture capital is widely discussed. An increasing number of businesses have had difficulty in raising equity funds, being thereby forced either to stop expansion or to finance expansion through plowed-back earnings or by going into debt. Loading business with debt has tremendous disadvantages especially in those lines of industry which experience wide fluctuations of sales and profits.

While a complete overhauling of the whole tax structure is long overdue the investor would be most encouraged by the introduction of a remedy for the present duplication of taxes on corporate earnings when passed on to the individual.

Despite the urgent need and despite impressive statistical comparisons equity capital remains timid, awaiting more incentive and more encouragement.

The United States is by long odds the richest and the most powerful nation in the world today. Fifty per cent of the world's productive wealth lies within our borders. This does not mean, however, that our wealth is inexhaustible. Nor does it mean that our economy can continue to function well without wise administration of business as well as government.

The National Debt

The public debt, which reached a high of $279 billion, has been reduced to approximately $250 billion, but it is still a source of major concern, and the avoidance of both debt increase and deficit financing are strategic issues in resisting the inflationary pattern.

The enormous burden of debt must be reduced and eventually discharged for the protection of the national credit, our money, and our economic well-being.

In considering the federal budget for the next year or two, there is general agreement on the necessity of large military outlays and substantial expenditures for foreign aid. These factors, together with the service on our own national debt and the benefits to veterans, means that we must be prepared for large federal expenditures and the continuance of taxation at a level which is already high.

In addition to this, the administration has been reelected on a program of expanded social benefits which will require additional expenditures. Admitting the desirability of a sound social program, we must pause to consider carefully whether our economy will be able to stand additional strains at this time. If these expenditures are increased substantially they must come through the sacrifice of other less vital governmental services. Otherwise one of two things will happen. There will be huge deficits that will disrupt our economy and finally affect our credit and the value of our currency. Or, if taxes are raised substantially, they will endanger the continuance of our business prosperity.

It will be no easy task to balance the budget. Even today in an atmosphere of high industrial production and profit, the corporation taxes will be $13,000,000,000, or 30% of the federal buug- and this amount is sorely needed to balance our present expenditures.

There is no reason to believe that we can increase our debt and increase our taxes indefinitely without inviting disaster.

We have seen our prospective customers attracted by the highly developed sales efforts of the large life insurance companies with the result that there is today a greater concentration of wealth under institutional control than ever before in history.

Fortunately, this problem can be met. It can be met by expanding our sales efforts to reach today's broader market. It can be met by introducing improved methods of business solicitation which are designed to reach the thousands of individuals who hold these unprecedented amounts of liquid assets. Many of them may be found in agricultural communities or somewhere off the main road of our cities and towns, unaccustomed to investment responsibilities. These markets can only be reached at greater unit cost and more generous profit margins.

For more than 20 years businessmen have preached the merits of the free enterprise system, mostly among themselves. It has had more oratorical treatment than anything except the Declaration of Independence.

While I believe that the free enterprise system is the best product in the nation today there is ample evidence that it has not been sold under that label.

Meanwhile, through accepted democratic methods, the drift toward socialism in this country persists in an orderly way and the nation continues prosperous and essentially free, despite the growing dependence of our citizens upon the State and Federal governments.

An Education Program

There are endless opportunities to acquaint our citizens, especially those of high school and college, with the plain facts about business and government, and, if businessmen are really in earnest, they will take upon themselves the task of providing sound economic education that everyone can understand.

There is nothing mysterious about the investment banking business, though some apparently believe that it is done with the use of mirrors or by sleight of hand. Both the underwriting and distributing functions are comparatively simple operations through which savings and other capital accumulations are translated into investments and through which the ownership of these intangible evidences of the nation's wealth are transferred from one owner to another, day after day.

Yet, because our industry is somewhat smaller than many others and because our functions are not a part of the daily lives of most of our citizens, the essential machinery supplied by our members is little understood and little appreciated.

Since the profit results from our business have been somewhat discouraging in recent years and since many changes have taken place which have made the conduct of our business more difficult, concern has been expressed about our future prospects. I feel reasonably safe in predicting that the firms, large or small, who recognize the many changes in this business and who are resourceful and aggressive in their advertising and merchandising methods will report good results notwithstanding these discouragements. Let us remember that the facilities offered by the investment banking business are indispensable in a free economy. And let us remember that the demands which will be made upon us to raise capital from private sources may well exceed our ability to perform unless we prepare for the opportunities ahead and keep alert and flexible to meet changing conditions. We must make our plans with confidence and with the full knowledge that investment banking is one of the essential wheels of industry.

Meanwhile, the story of America must be told and retold. The fundamentals of the American system should be made known to greater numbers of our citizens. There must be constant reminders of the individual opportunities and individual freedoms peculiar to our nation, where the incentive system and the profit motive nourish a virile and highly productive economy which today is the hope of the world.

LETTER TO THE EDITOR:

The Technical Market Systems

L. L. Moorman, commenting on A. Wilfred May's "Observations" in the "Chronicle" of November 4, says battle should be against the high priests rather than against technical systems of investment policy and market trend analysis.

Editor, The Commercial and Financial Chronicle:

In spite of the fact that you (Mr. May) seem to enjoy an argument, you occasionally use considerable tact. Take your "Observations" of Nov. 4. It's a honey.

First, I want to assure you that I agree to a great part of your argument, but I believe careful price trend studies to be part and parcel of good factual analysis. This I believe to be an important prerequisite for sound investment procedure. It is important to speculative programs as well, but a simon pure investment program should be confined to safety of principal and the assurance of reasonably dependable income. I believe the minimum income requirement of the individual should determine the objective and the character of the investment program. The risk assumed should be only that necessary to the bare fulfillment of the income need. Ample diversification and balance are important safeguards which cannot be ignored.

I do not consider balance a method to beat price movements, but rather a method to obtain greater income with less risk. And then only when greater income is needed. If the income is sufficient for the needs from good tax free 1½% municipals, then 100% investment in such tax free municipals would be perfect balance for the account. The assumption of greater risk to try for market profits or greater income would be a silly unnecessary risk.

I believe this is entirely in line with your own philosophy, and way back B.C. (before confusion) it was the normal accepted practice. Today new ideas foster speculation. For example, you must buy commodities or equities to hedge against inflation—the future purchasing power of the dollar must be guessed at. If you are in a high income tax bracket, your are supposed to buy stocks to improve your spendable income through market profits, because present tax laws limit tax on long-term profits to a maximum of 25% of any such gains. If the operation produces a loss, it can be used to reduce actual earned income. Formula plans based upon secular or market growth channels, give the implication that you can't lose money by buying common stocks. The trend of the channel is always up at the rate of 3 or 3½%. If you are wrong, just wait. You can't lose.

Furthermore, investment analysis based upon business fundamentals, national income, building, production, earnings, dividends, etc., used to be good yardsticks of value. Lately the fear of the unknown is more important than fundamentals. Tax threats, labor troubles, etc. on the domestic scene — and war scares on the international front—stimulate the emotional factor of fear. Today fear psychology is used as a club to scare people into doing foolish things, and the United States Government is one of the worst offenders.

Therefore, is it any wonder people listen to the high priests of any technical market system, if they claim to offer financial redemption? And speaking of mechanical systems, it is the high priest who goes wrong, not the system. And isn't that because they are human? At times every system hits dead center and can be interpreted two ways. Result: two interpretations. The high priests are divided. The system can't go wrong. It's just a dumb mechanical weathervane which shows which way the wind is blowing. When the wind changes, it has to change—but some of the high priests, having anticipated their systems in a try for glory, refuse to change with the wind. As a result, their stubbornness causes losses instead of profits. Anyway, this has to do with speculation and not investing, and you can't invest and speculate with the same dollar at the same time. This brings us back to balance. Use part of your money to invest with, i.e. buy safety and dependable income. Shoot craps with the balance if you can afford to. By following this simple principle, investments could bring more contentment and there would be no need for investors to try to beat the market with or without systems.

In conclusion, I think your battle is against the high priests, rather than the systems. Of course, this broadens the field and puts it on a personal basis. Therefore, I sympathize with you because you can't get all the high priests of anyone system on the same side of the market at the same time. Therefore, the systems are immortal. Personally, I'd rather have Hercules task in the Aegean Stables, which reminds me of your very delicate conclusion in your "Observations" of the Nov. 4 issue of the "Chronicle." You said "The individual attempting to bridge the gulf between market-picture and value-scrutiny will only 'fall between the two stools.'" Of course this may have been a misprint and perhaps it should have read "between the two schools," but if it was printed correctly I greatly admire your delicacy of expression. I congratulate you heartily for letting them fall between the stools and not on the darn things. And, as one friend tells another — don't look now, but you've been stepping on one of the stools.

L. L. MOORMAN

Dec. 5, 1948
P. O. Box 329
Rutherfordton, N. C.

Predicts Reduced Industrial Financing in '49

(Continued from page 22)

expected to cut back by more than 20%, and other enterprises in the mining, railroad, public utilities, and commercial fields may well hold their budgets at a high level, so that total business expenditures may be down only 10%.

This would mean a decline in business capital spending of $2 to $3 billion. Now it is necessary to make a few assumptions about the ability of business to generate funds from earning power next year. If a decline of 8 to 10% in net profits, before taxes, is projected and a moderately higher tax rate is assumed in the already burdensome tax structure, then business earnings would decline about 15 to 20%, or $3 to $4 billion.

On the assumption that business earnings next year can hold up to within about 15% below 1948, the internal generation of capital funds would be approximately adequate to meet this spending program and continue dividends at the 1948 level. Demand for new capital would then hinge on inventory and working capital requirements. Increased inventory requirements were $7.3 billion in 1947, and about $6.4 billion in 1948. If no new money is needed for building up 1949 inventory, then business might be able to supply most of its own capital needs.

The question arises whether the results of the election will have an even more adverse effect on earnings than has been assumed. We know that the Democratic program has included promises of higher wages, price restrictions and increased corporate taxes. Sweeping accomplishment of these objectives would make it very difficult for business to generate sufficient funds for capital needs, either internally or externally, from the capital markets. Unexpectedly low earning power would of course have its effect in further reducing capital expenditures, establishing a vicious circle in which a decline in available funds would be promptly followed by curtailed capital outlay. An excess profits tax or other punitive tax burdens would cause an unjustifiable shrinkage in business expenditures, confronting our economy with a slowdown in durable goods production which would inevitably mean reduced payrolls and mass unemployment. Efforts to offset such a decline in business spending by increasing government outlays would face a losing battle, since business expenditures on plant have a definite reproductive power in contrast to the sterility of Federal spending.

Pattern of Financing in 1949

It is too early to lay down a hard and fast pattern for financing next year, but it does appear that:

(1) The need by business for new money will be considerably reduced.

(2) Strength in the fixed income securities market may permit working out delayed refunding operations.

(3) Bank loan formation may slow down; there could be substantial payoffs on loans if inventory requirements are not mushroomed by further price rises. A recent survey made by the Federal Reserve Bank of Philadelphia of projected capital expenditures in the Philadelphia district indicates an expected 16% decline, and further points out that the firms involved in these programs expect to rely upon banks for only 2% of their requirements, as against 13% a year ago. This survey was made prior to the election.

(4) If the net demand for new capital does indeed dwindle, the stage might be set for refinancing a certain amount of senior capital with equity securities.

The actual development of these possibilities would be generally constructive. The period of maximum capital needs under conditions of inflation has been a time of many strains. Relaxation of capital requirements can alleviate some of these strains, resulting in balance sheet improvement, loan pay downs and ultimately a more nearly adequate flow of dividends to those who have furnished the risk capital to American business.

In previous remarks this Committee has called attention to problems connected with the shortage and timidity of venture capital, problems which rendered it necessary to substitute senior financing for equity financing in instances in which the latter was clearly desirable. From the beginning of 1945 to date, about 20% of the new money has been raised through the medium of common stock, 15% preferred stock and 65% bonds and notes. Clearly, the direction of this trend has been unsatisfactory from the standpoint of a balanced capital structure.

It had earlier been hoped that a sounder tax structure might be on the 1949 calendar, a tax structure furnishing relief from crippling double taxation. This would have tended to improve the outlook for improving the ratio of equity capital to debt, in new financing. Now this tax prospect does not appear bright for the near future, although this type of relief is still a requisite to sound future financing.

The picture we have sketched in for the coming year does include the projection of a material slowing down of the rate at which business has been going into debt. With the tendency to finance with debt so widespread in recent years, we necessarily come to the question whether business has piled up a dangerously high debt structure.

The answer is a definite "no." The direction of the postwar trend was not sound, but it has not proceeded far enough to weaken the financial strength built up in earlier years. A few brief facts bear this out. Today business sales volume is running two and one-half times as high as it was in 1929, and yet corporate debt is only about one-fifth greater than it was in that prewar peak year. SEC data show that corporate working capital, excluding banks and insurance companies, has increased from a prewar figure of $24.5 billion in 1939 to about $64 billion the middle of 1948. Comparable figures are not available for 1929, but other data indicate that working capital today is at least twice 1929 levels, while corporate debt has increased only moderately. The record seems clearly to point to a strong position with regard to debt in the business structure.

We are led to the conclusion that the period of rounding out the peak in capital requirements finds the larger American business enterprises in sound shape to meet the manifold problems confronting us. Ingenuity and resourcefulness have prevented the development of corporate deterioration.

Respectfully submitted,

Industrial Securities Committee

Frank A. Willard (Chairman); Walter W. Ainsworth; Wilbur G. Bingham; William B. Chappell; W. T. K. Collier; Milton C. Cross; Harry S. Grande; Henry Herrman; Matthew J. Hickey, Jr.; E. Jansen Hunt; B. P. Lester; Stanley N. Minor; Paul L. Mullaney; Chapin S. Newhard; E. Cummings Parker; John J. Quail; Wickliffe Shreve; William H. Sills; Joseph A. Thomas; Murray Ward.

CORPORATE SECURITIES OFFERINGS

(SEC Data)

Including Private Placements and Unregistered Issues But Excluding Commercial Bank Term Loans

— (000's omitted) —

Proposed Uses of Net Proceeds:	9 Mos. End. 9-30-48	1947	1946	1945	1944	1943	1942
All corporate	$4,542,868	$6,466,053	$6,756,582	$5,901,744	$3,141,847	$1,146,914	$1,042,556
New money	3,798,966	4,590,540	3,278,828	1,079,844	656,967	307,958	473,652
% of total	83.62	70.99	48.53	18.30	20.91	26.85	45.43
Plant and equipment	2,689,300	3,408,523	2,114,682	637,803	251,757	140,889	287,039
Working capital	1,109,666	1,182,017	1,164,146	442,042	405,210	167,069	186,613
Retirements	609,986	1,707,931	3,246,302	4,688,823	2,438,063	811,685	533,703
% of total	13.43	26.42	48.05	79.45	77.60	70.77	51.19
Funded debt	191,486	1,155,191	2,391,919	4,116,897	2,037,505	666,657	365,819
Other debt	376,257	356,304	378,786	134,009	49,071	72,538	137,543
Preferred stock	42,243	196,436	475,597	437,917	351,486	72,490	30,341
Other purposes	133,916	167,582	231,452	133,076	46,818	27,271	35,201
% of total	2.95	2.59	3.42	2.25	1.49	2.38	3.38
Industrial	1,673,993	2,685,903	3,600,777	1,969,294	1,033,392	497,439	527,185
% of total	36.85	41.54	53.29	33.37	32.89	43.37	50.57
New money	1,275,833	1,973,818	2,200,869	810,516	453,664	227,587	292,651
Retirements	355,733	649,565	1,230,693	1,107,002	551,617	252,659	207,741
Other purposes	42,348	62,520	169,216	51,775	28,111	17,193	26,793

Reports High Record of Municipal Issues

(Continued from page 24)

fully discharged. This would appear to give full consideration to the state's tax remission agreements.

Tax Exempt Discount— Municipal Bonds

In May of this year the City of Chicago sold a block of $66,500,000 bonds for various purposes. The rate on $36,500,000 of these bonds was specified as 1½%. Some of the bonds are serial and some term bonds. The term bonds are redeemable at par prior to maturity. The bid for these $36,500,000 of bonds was at a discount, specifying a separate price for each maturity and where the bonds are optional a separate price for each optional date. The Department of Internal Revenue issued a ruling on these bonds, holding that such discount is additional interest and exempt from Federal income taxes.

The principle of this ruling is the same as the one referred to in our Annual Report of last December, issued in conection with the sale of $20,000,000 Fulton County, Georgia 1½% serial bonds sold by the County in March, 1947 at a specified separate price for each maturity. A substantial majority of such separate prices were at discounts. Both of these rulings simply reaffirm the long-established holdings of the Department as to the status, for Federal income tax purposes, of interest on bonds sold by a municipality at a discount. We mention the Chicago ruling in this Report merely because it also covers treatment of the discount on the optional bonds where redeemed prior to maturity. The optional feature was not involved in the Fulton County issue.

For the purpose of general reference, we quote below the opinion of Chapman and Cutler of Chicago as to the effect of the Treasury Department's rulings of April 30, 1948 and May 4, 1948, relative to $36,500,000 1½% bonds of the City of Chicago sold by the City as above mentioned.

"The discount at which a bond is issued by the City is regarded as constituting additional exempt interest accruing daily over the entire period from the date of issuance to the date of maturity of the bond. An original purchaser who holds such bond to the final maturity date is therefore entitled to treat as exempt interest the entire amount of the discount received by him when the bond is paid by the City at par at maturity. Where an original purchaser sells the bond before maturity, he is entitled to treat as exempt interest the portion of the discount which is 'earned' for the number of days he held the bond, his proportion of the total discount being equal to the proportion that the number of days he held the bond bears to the entire number of days from issuance to maturity of the bond.

"Similarly each successive purchaser is entitled to the portion of the discount at which the City originally sells the bond, allocable to the number of days he holds the bond. Each successive purchaser selling the bond figures his share of the discount with respect to the number of days he held the bond out of the total number of days from issuance by the City to the fixed maturity date.

"The only difference in treatment occurs in the case of the purchaser who holds the bond when it is redeemed at par on the earlier call date: he is entitled to treat as exempt interest all of the remaining discount, that is the proportion of the discount, which the number of days from his date of purchase to the date of fixed maturity bears to the total number of days from date of issuance to date of fixed maturity."

These rulings, of course, have no bearing on bonds sold by a municipality at par or better and later acquired in the market at discounts. Such cases require the declaration as a capital gain of the difference between the cost of the bonds and the price of disposition if above the cost.

Reconstruction Finance Corporation

In May, the Congress passed S. 2287, effective June 30, 1948, extending the life of the Reconstruction Finance Corporation (which would have expired June 30, 1948) through June 30, 1956, unless sooner dissolved by Congress. The powers of the Corporation to purchase obligations of and make loans to various business enterprises, financial institutions and municipal bodies, etc., as provided by Sec. 4 of the Act, terminate at the close of business June 30, 1954, but such termination would not affect the completion of agreements entered into up to that time.

In order to aid in financing projects authorized under federal, state or municipal law, the Act authorizes the RFC to purchase the securities and obligations of, and to make loans to, states, municipalities and political subdivisions of states; public agencies and instrumentalities of one or more states, municipalities, and political subdivisions of states; public corporations, boards and commissions. No such financial assistance shall be extended, unless the financial assistance applied for is not otherwise available on reasonable terms. For brief summary of various features of the new Act, see our Interim Report of last May.

Water Pollution Control

In our previous reports we covered developments in the Water Pollution Control Bills in the 80th Congress. During the closing days of the session last June, Congress passed S. 418 in the form recommended in conference. It is now Public Law 845, 80th Congress, effective June 30, 1948. The states have for some time past done a great deal of constructive work and extensive planinng toward the abatement of water pollution. The enactment of the Water Pollution Control Law, combining federal and state activities and federal assistance, should grealty stimulate these important health undertakings.

In a joint statement of the Federal Security Agency, Public Health Service and the Federal Works Agency, Bureau of Community Facilities, it is pointed out:

That the national program is to assist States, municipalities, interstate agencies and industries in the control of water pollution caused by sewage and industrial wastes.

"Water pollution abatement is primarily a State responsibility. However, as numerous rivers are interstate, the problems of pollution extend beyond State boundaries. Public Law 845 is the result of a half century effort to create an effective, coordinated national water pollution control program.

"The exact procedures for obtaining financial assistance for planning and constructing treatment works are now being drafted. . . . According to the law, States, municipalities, or interstate agencies must obtain approval of proposed projects from the appropriate State water pollution agency or agencies, and from the Public Health Service.

"The Federal Works Administrator is authorized to make grants to States, municipalities, and interstate agencies for studies, surveys, and other action preliminary to the construction of projects, and to make loans at 2% interest for the planning and construction of sewage treatment facilities.

"Grants for plan preparation for any one project cannot exceed $20,000, or one-third of the cost of such work, whichever is the smaller. The Act authorizes an appropriation not to exceed $1,000,000 annually for five years for the making of grants for plan preparation.

"Loans for any one project cannot exceed $250,000, or one-third of the cost of planning and constructing the project, whichever is the smaller. The Act authorizes an appropriation not to exceed $22,500,000 a year for five years for the making of loans for planning and construction.

"It is specifically provided in the Act that the security of the loans, including the payment of principal and interest thereof, may be subordinated by the Federal Works Administrator to other obligations issued or to be issued for the project and to other obligations then outstanding."

* * *

"The passage of Public Law 845 has provided for the first time a national program for the elimination of water pollution. The program is a challenge to States, municipalities, communities and industries and general cooperation is essential in order to achieve success.

"The approach to pollution control is complex. Each river basin presents its own problems. In each case the best interest of the greatest number of people will be considered in carrying out the objectives of the program.

"It is a long range plan and immediate results will not be sensational. But over a period of years the improvements in health, in recreational facilities, and in the general public welfare will be immeasurable."

The Tidelands Situation

For the past two years we have reported regularly in our Interim nd Annual Reports respecting developments in the so-called tidelands matter—the claim of the Federal Government, proposed legisation, litigation, U. S. Supreme Court decisions, its decree, etc., and further proposed legislation this year, intended to establish the law for the future so that the rights and powers of the states and those holding under state authority may be preserved as they existed prior to the decision of the U. S. Supreme Court in June, 1947, in the California case.

Last January there was introduced in the Senate S. 1988 copy of which was appended to our Interim Report of January 30 of this year. The measure was sponsored by twenty Senators from different parts of the country. Among the many bills on the same subject introduced in the House was H.R. 5992 which was passed by the House on April 30 by a vote of 257 to 29. That bill was substantially the same as Senate Bill S. 1988.

On June 10 the Senate Judiciary Committee amended S. 1988 making it conform to H. R. 5992 and recommended its passage. However, no action was taken by the Senate, due apparently to the close approach of the June adjournment. It will be recalled that President Truman vetoed a similar measure in 1946, during the closing days of the 79th Congress.

It is important that the tidelands situation be clarified by Congressional action. In its Report of June 10 last, the Judiciary Committee of the Senate stated, concerning the applicability of the California decision to other coastal and Great Lakes States, that:

"The Attorney General of the United States testified that he intended to bring in the near future similar suits against other Coastal States and that, although each State would probably urge 'special defenses' based upon the law and facts under which it joined the Union, the California decision was a precedented for the suits he intended to bring against other States. . . ."

"The attorneys general of several Great Lakes States and other qualified witnesses testified that the California case was likewise a precedent which the Federal government could properly urge in any suit against the Great Lakes States to recover for the Federal government the submerged areas under the Lakes within the boundaries of such States. . . ."

That Committee also said:

"The implications in the California decision have clouded the title of every State bordering on the sea or on the Great Lakes, and the committee is unable to estimate how many years it would take to adjudicate the question of whether the decision is applicable to other coastal and to the Great Lakes States. We are certain that until the Congress enacts a law consonant with what the States and the Supreme Court believed for more than a century was the law, confusion and uncertainty will continue to exist, titles will remain clouded, and years of vexatious and complicated litigation will result."

State Court Decisions and Legislation

Appended to this report are brief references to certain state court decision, rendered and state legislation enacted during the year. Only decisions and legislative enactments considered to be of general interest to the municipal trade or of special significance locally are included. Attention is directed to these decisions and enactments—court decisions, Ap-

pendix 1, and legislation, Appendix 2.

Respectfully submitted,

Municipal Securities Committee

Emil C. Williams (Chairman); Rucker Agee; Phillips T. Barbour; Oscar M. Bergman; Orlando S. Brewer; Alan K. Browne; George N. Bullard; George S. Channer, Jr.; Walter I. Cole; J. R. Crunkleton; Herbert V. B. Gallager; E. Kenneth Hagemann; William H. Hammond; John G. Heimerdinger; B. F. Houston; Wilbur E. Johnson; S. D. Lamon; McDaniel Lewis; W. L. Marshall, Jr.; George L. Martin; Richard H. Martin; J. W. Means; Andrew S. Mills; William H. Morton; Laurence M. Rieckhoff; Jones B. Shannon; Robert O. Shepard; Paul E. Youmans.

* * *

Progress Report of the Special Committee on Revenue Bonds

At the White Surplus Springs Meeting in May, Emil Williams, Chairman of the Municipal Securities Committee appointed a Special Committee on Revenue Bonds, which is made up of the following members:

Phillips Barbour (Chairman), The First Boston Corp., New York; O. Paul Decker, American National Bank & Trust Co., Chicago; H. H. Dewar, Dewar, Robertson & Pancoast, San Antonio; Robert S. Mikesell, Stranahan, Harris & Co., Inc., Toledo; William H. Morton, W. H. Morton & Co., Inc., New York; Aaron W. Pleasants, The International Trust Co., Denver, and Robert O. Shepard, Prescott, Howley, Shepard & Co., Inc., Cleveland.

The general objectives of the Committee are:

(1) To bring about in the minds of bank officials and supervisory banking authorities particularly, a more realistic appreciation and fuller understanding of the merits of the class of investment securities generally known as "municipal revenue bonds" which would entitle them to recognition as a suitable investment for banking institutions of all kinds especially commercial banks, and

(2) To do what it can to create in the minds of prudent investors everywhere an appreciation of the true investment value of municipal revenue bonds.

Despite the enviable record which these bonds have made, particularly during the years of the depression, there are still those who look upon them with disfavor because they are not supported by the taxing power. Although many of our insurance companies, banks, trust companies and individual investors have been buying them for years the supervisory banking officials, as a rule, still hesitate to include revenue bonds among those investments which they consider suitable for commercial bank portfolios. Therefore, one of our chief aims is to create a better feeling, if possible, regarding these bonds in the minds of the State and Federal authorities having supervision over the commercial banking system.

The program which has been proposed and which is being developed, although not yet formally adopted by the Committee, is based on the conviction that revenue bonds when well conceived and properly designed are good bonds, and that the prejudice found in some places against them is due to lack of knowledge about their past record and potential worth rather than to any inherent weaknesses in the principles upon which they are based. The program as we see it should be essentially educational, and to this end we are directing our efforts.

As each revenue bond must be judged on its merits and cannot be accepted blindly simply because it has been issued for some popular purpose, certain pertinent information must be had regarding it in order to determine its true investment value. Among the questions which at once came to mind when we approached the problem were these:

(1) Exactly what information is needed regarding each project?

(2) How do we get that information?

(3) How do we make it available to those who want it?

(4) How should investors use the information when they have it to determine the investment value of the bond under consideration?

The best way we knew to answer the first question was to prepare a form of report or questionnaire for each of the purposes for which revenue bonds are generally issued, make them as brief and simple as possible and yet in sufficient detail for the purpose we have in mind, then put them to the test and see if they will do the job we intend them to do. Members of the Committee were asked to suggest questions for these forms and based on their replies and on suggestions from others, report forms have been prepared for use by the issuers of Electric Light & Power, Water, Sewer, Toll Bridge and Highway bonds. Those for other purposes may be prepared when there is a demand for them.

A sample of these forms appears in the Annual Convention Edition of The Bond Buyer, thanks to the thougtfulness and kindness of Sanders Shanks, the Editor and Publisher. They are in two parts. Form No. 1 may be used for any or all purposes for which revenue bonds are currently issued, whereas Form No. 2 has been especially designed for the specific purpose for which it is to be used. They are designated IBA Revenue Bond Report Form No. 1 and IBA Revenue Bond Report Form No. 2 Water, Form No. 2 Electric Light, etc.

Form No. 1 may be filled in by the issuer, underwriter or attorney from information in the prospectus and may change little or none during the life of the bonds. It is to be in effect a prospectus in condensed form. Form No. 2 may best be filled in by the auditor from the more elaborate reports which he prepares annually or at more frequent intervals for the management.

Objection will be made by some that as many issuers of revenue bonds intend to make but one issue they and the underwriters who distribute it, once having sold it, will not feel called upon to see that the ultimate purchasers are kept informed as to the operation of the project they have financed. We don't think that this objection is well taken except maybe in cases of unusually small projects, the distribution of whose bonds are confined to the area in which it operates. Municipal officials are accustomed to make reports from time to time to certain State officials and to other recognized agencies and the information which they furnish today is in greater detail and more elaborate than they gave us a generation ago. In those days the only statistical information we had about a municipality was the debt statement and population. Today we have that and a great deal more, and unless such information is available bonds do not receive the same consideration and maintain their position on legal lists, etc., to which they may be otherwise entitled.

From time to time insurance companies, trust companies and many sophisticated individuals who buy revenue bonds demand certain information regarding those they own just as they do about other securities in their possession. State and Federal banking authorities are urging the banks to keep more complete files regarding all securities in their portfolios. Therefore, those who make a practice of distributing revenue bonds will find it to their interest more and more, to urge issuers of these bonds to comply with these requests and to cooperate in this respect with the banking officials, if they expect to sell more of these bonds to the banks and others who would buy them.

Recognizing that it would be most helpful to the success of this program to have some central agency which would find it to its interest to collect and distribute these reports and which would be amply compensated for its efforts, one of the first moves we made when starting on this job was to propose to some of the reporting agencies who are receiving and publishing at regular intervals financial reports on municipalities and industries, the publication of a manual solely devoted to revenue bonds and fashioned after those we are all now familiar with. Such agencies are well equipped to do the work and through the sale of the manuals they would be well paid for their efforts because undoubtedly such manuals would be in wide demand. The idea interested them and we have reason to believe that at least one is seriously considering devoting more space to revenue bond projects if not indeed the publication of a separate manual for this purpose.

Obviously it will be to the interest of issuers as well as underwriters of revenue bonds, for which wide distribution is desired to cooperate with this publication when it becomes a reality, in making available the information desired and we believe it will naturally follow that once this manual is issued and circulated it will be only a matter of time until all will recognize the advantage such a volume may have for all interested in revenue bonds. We believe it should be a long step forward in our effort to interest the banking authorities and others in these bonds.

It is the custom of the leading bond attorneys who are most active in drawing up trust agreements and indentures for revenue bonds to include a covenant requiring the issuer to make available annually or in some cases oftener, information regarding the financial condition and progress of the project under their direction and the Committee hopes that these IBA report forms may be followed in detail or as a pattern in supplying such information. In any event as time goes on a standard pattern will probably evolve which will be followed by all.

The Committee intends to request all municipal attorneys to include a covenant to this effect in all revenue bonds which they design, and we have every confidence that the request will be favorably responded to. Some attorneys may go even further and encourage issuers to agree to publish a report of operations at regular intervals in some paper or magazine of general circulation among municipal dealers. The cumulative value of such advertising would be great if the reports were good and would give the issuers an opportunity to explain the reason if they were poor. The cost of the audit and other expense necessary to prepare the information requested together with that of the attendant advertising, if any, should be included in operating expenses and so provided for in the indenture. Many of the large revenue bond issuers now make a practice of mailing to those who request it regular reports regarding their operations and we believe that this custom will grow. Even though in many of the older issues there was no covenant requiring the issuer to report publicly the result of its operations, many of them do so. It must be obvious to all that it is a good thing to do.

The Committee expects to seek the cooperation of such organizations as the Municipal Finance Officers Assn., American Public Power Assn., American Bankers Assn. and other of similar character and hopes that through the publications issued by these bodies sufficient attention will be attracted to our program to increase and broaden the interest in revenue bonds and that it will prove to have been well conceived and sound. The publishers of the "Bond Buyer" are already cooperating in a most effective and impressive manner by devoting a large portion of the Annual Convention Number to this subject and I am sure other publications

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Reports High Record Of Municipal Issues

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also will cooperate with the Committee in any campaign of publicity which may be determined upon.

We are going to make a sincere effort to have the supervisory banking officials in Washington endorse our program and have reason to believe that we will be successful.

If addresses such as those made recently by Robie Mitchell before the American Toll Bridge Assn. and by R. E. McDonnell before the American Public Power Assn. regarding certain constructive features of revenue financing both of which appeared in the "Bond Buyer," were to be distributed by dealers among their bank customers, the banking authorities and others in an effort to spread the gospel about these bonds as widely as practicable, we believe it would do much to aid our program.

It is hoped that the Committee may interest the Governors of our Association in our plans to the point that they may be induced to finance the cost of preparing reprints of such addresses as those mentioned and articles on the subject and that the Association may be reimbursed later by the dealers who use them. We hope to handle the cost of preparing the report forms in the same way.

Now this program as above outlined doubtless will not satisfy the dealer who asks "how will it help me sell a new revenue issue which I am offering today?" The Committee's answer to that query is "it won't help you except indirectly, to sell your bonds." As stated above, the program is essentially educational and these report forms are designed to point out the kind of information the average buyer should have to determine the investment value of these bonds. Insurance companies want a great deal more. Others may be satisfied with less. We have tried to hit a happy medium. By having this or similar information compiled in a separate manual attention should be more effectively attracted to revenue bonds as a class and enable one more easily to compare the results of operation of various projects. By this means one can become better informed about them and therefore better able to determine their value and desirability as investments for his particular purpose.

We can compile engineers' estimates galore, but unless they are presented to someone who is familiar with the reputation and record of those making the estimates, they will continue to be merely little more than guesses and therefore speculative in the eyes of the banking officials. And, of course, speculative issues are not suitable for bank investment.

Finally, and this comment is kept to the last to better emphasize it, the most constructive idea which this Committee can present is to urge with what influence and energy we have, that the underwriters who originate and sponsor revenue bonds, set an example by using these forms at least as a pattern, in making available annually, if not oftener, information regarding the projects which they have underwritten. We believe they would find the effort well directed if they should see that this information is placed in the hands of the supervisory banking authorities, including the chief bank examiner in each of the Federal Reserve districts, in which bonds have been bought, as well as to the members of their syndicates and those to whom they have sold these bonds.

They can go even farther, and they should. They should see to it that the bank examiners in the area in which they expect to distribute the issue are called on and given full information regarding it in advance, just as they cover the important insurance companies and other large buyers now. Oftentimes we are quick to criticize these officials for failure to look favorably on some pet issue. However, we who know all about it seldom have made any effort, at least any organized effort, to see that these same officials who can do so much to help or hinder its distribution are fully informed as to its character and merits.

If this Committee does nothing more than help to educate the investment fraternity and its customers as to what information should be had to aid one in properly judging the investment value of revenue bonds and make them better able to separate the sheep from the goats it will have spent its time well. If, in addition, we can arouse underwriters and dealers to the importance, yes, the necessity of fully informing the banking officials about their wares we will have taken a long step toward reaching the goal for which we have set out.

The Committee earnestly urges all municipal dealers who are anxious to expand their field of operations and their volume of business and profits to thoroughly familiarize themselves with these IBA report forms and to try to induce their bank customers as well as others to form the habit of keeping posted on the progress of the facilities who bonds they hold and to maintain a live file of such information. It should pay handsome dividends in the end and become a means of broadening the market for these bonds which we believe are destined to play a greater part than ever before in future municipal financing and to be issued in greater volume and numbers as the country grows.

PHILLIPS BARBOUR,
Chairman, Special Committee.

SEC Announces Amendments to Rules

The Securities and Exchange Commission announced on Dec. 17 amendments to its general rules and regulations under the Securities Acts of 1933 and 1934. These amendments, it is pointed out, have been under consideration since last Summer, during which time comments and suggestions were received regarding the proposals.

In connection with rules pertaining to the Securities Exchange Act of 1933 the Commission has changed its policy of granting extensions of time for filing annual and other periodical reports. These reports must now be filed within the time designated, unless an extension of time is based on "substantial grounds." In addition, the SEC stated that it now requires the filing of the following: (1) current monthly reports of significant developments, and (2) quarterly reports of sales and operating revenues by those companies which have registered new securities in an amount, including outstanding securities of the same class, not less than $2,000,000.

As to amendments in the prospectus requirements (Form S-1), the ommission under Item 8 now calls for information as to the capital securities of the registrant. Where the registrant has subsidiaries which have outstanding securities, such securities ordinarily constitute a claim on the assets of the subsidiaries prior to that of the holders of securities of the registrant. This item has been interpreted as requiring, in the interest of full disclosure, information as to securities of the subsidiaries. In order that all persons using Form S-1 may be advised of this interpretation, Item 8 is amended by adding to the instructions a new instruction reading as follows:

"5. Information is to be included as to the securities, other than those owned by the registrant, of all subsidiaries whose financial statements are filed with the registration statement on either a consolidated or individual basis."

Under the so-called "disclosure" requirements (Items 25 and 26), the Commission now provides that information regarding remuneration of directors and officers should show the aggregate remuneration directly or indirectly paid or set aside by the registrant and its subsidiaries to, or for the benefit of, the following persons for services in all capacities while acting as directors or officers of the registrant during its last fiscal year:

(1) East person who was a director of the registrant at any time during such fiscal year and whose aggregate remuneration, exclusive of pension, retirement and similar payments, exceeded $25,000.

(2) Each person who was one of the three highest-paid officers of the registrant during such fiscal year and whose aggregate remuneration, exclusive of pension, retirement and similar payments, exceeded $25,000.

(3) All persons as a group who were directors or officers of the registrant at any time during such fiscal year.

Under Item 26 relating to the remuneration of certain other persons aside from officers and directors, the prospectus is to state in tabular form the name of each of the following persons whose aggregate remuneration from the registrant and its subsidiaries for services during the last fiscal year of the registrant exceeded $25,000, the amount of such remuneration and the capacities in which it was received.

(a) Each affiliate of the registrant (other than its majority-owned subsidiaries);

((b) Each voting trustee named in answer to Item 29;

(c) Each security holder named in answer to Item 30(a); and

(d) Each person (other than the registrant or its majority-owned subsidiaries) with whom any person named in answer to Item 25(a), 29 or 30(a) had a material relationship.

Previously, directors' and officers' remunerations had to be disclosed if in excess of $20,000 or 1% of the registrant's total assets, whichever amount was smaller. Under the new rules, information is also to be furnished as to pension and retirements payments for the benefit of directors and officers.

Other changes made in the SEC rules define the term, "significant subsidiary," so as to accord with higher tests employed elsewhere in the rules and regulations. Another change also eliminates a provision of permitting a registrant to disclaim responsibility for the accuracy of completeness of required information which is unknown and not available without unreasonable effort or expense.

Public Utility Securities

Kentucky Utilities Company

Middle West Corporation, now in the final stages of dissolution, is distributing its holdings of Kentucky Utilities Company common stock on the basis of one share for each two shares of its own stock outstanding. The distribution will be made Jan. 27 to holders of record Dec. 28, and the stock is currently quoted, "when distributed" at 9½-9¾.

Kentucky Utilities now has revenues of nearly $20 million per annum, and has shown unusually rapid recent growth, 1948 gross being about one-third higher than in 1946. The company supplies electricity to a population of about 458,000 in 73 counties in Kentucky and one county in Tennessee. Large cities served are Lexington and Paducah. Miscellaneous revenues from gas and ice account for about 6% of the revenues; water properties were sold at the end of 1947 and the last of the ice properties are being currently disposed of. Some gas interests were also sold this year, the remaining properties being located in Paducah and Shelbyville.

The territory served by the company includes a large part of the blue grass region in central Kentucky, and parts of the bituminous coal areas in southeastern and western parts of the state. While the area is not an industrial one, a number of manufacturing units have been established in recent years.

Middle West is currently purchasing an additional 125,000 shares of Kentucky common stock at $10 a share. Following this transaction the latter's capital structure will approximate 49% debt, 21% preferred stock, and 30% common stock equity. However, it is reported that the company plans to sell $10 million bonds in the near future, of which $1,500,000 will reduce bank loans and the balance be used for construction. After these transactions the pro forma capital structure would be 54% debt, 19% preferred and 27% common stock equity, it is estimated.

The company's fixed charges and preferred dividend requirements have been substantially reduced in recent years through refundings, and several cash investments by Middle West in the common stock have improved the financial structure. The company is now engaged in a substantial construction program, and its new power plants are currently reducing operating costs substantially. In the 12 months ended Oct. 31 the kwh. cost of purchased power average about .79c while—cost of generated power was .61c.

For the 12 months ended Oct. 31, 1948 earnings were equivalent to $1.37 on the 1,065,000 shares of common stock which will be outstanding after the sale of the additional shares to Middle West. (Based on the current number of shares, earnings are $1.48.) Earnings for the October period are about 10c higher than those for the 12 months ended Sept. 30, which reflects the improved earnings resulting from new generating units. A 25,000 kw. unit went into operation at the Tyrone plant in October last year and another 25 000 units in May this year. A new plant on the Green River is being designed for two 30,000 kw. units, one to be completed about a year from now and the other in 1950. The company in the past year has purchased only about 27% of its power requirements compared with 50% in 1947 and 74% in 1946.

The company's construction program during the three years 1948-51 inclusive, amounts to about $34 million. However, the current and contemplated financing mentioned above should take care of a substantial part of the capital requirements, and only about $5 million of additional securities will be needed by the end of 1951, it is estimated. The company could probably issue this amount of bonds without disturbing the 25% ratio of common stock equity, because of reinvested earnings during the 3-year period.

Residential rates now average about 3.47c compared with 4.06c in 1943. Usage approximates 1.300 kwh. The company is extending its rural service lines into new areas and this is expected to add about 800 customers monthly over the next two years.

Completion of the Tyrone and Green River power plants should eliminate operation of high-cost plants and the purchase of high-cost power and result in further increase in earnings. It has been estimated that by 1951 the company might be expected to earn around $2.25 per share, and such earnings would not, it is thought, produce an unreasonable return on net plant value. A 20% increase in Federal tax rates would reduce these earnings to slightly below the $2 level, it is estimated.

The present dividend rate of 80c therefore seems conservative based on current and anticipated earnings. But any increase in the dividend rate appears rather unlikely over the next two years, because of cash requirements for the construction program. Several years from now a dividend rate of $1.20 would appear reasonable if earnings projections are borne out.

Recommends New Uniform State Securities Act

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further improvement is needed. These are the subject of current discussions with the Bar Association Committee, and both groups hope to work these out and present a united front in support of the bill when it is introduced.

New York—The "Martin Act" was amended, effective Feb. 25, 1948, to provide that non-resident dealers doing business in New York shall be deemed to have appointed the Secretary of State as agent for services of process.

Wisconsin—An opinion of the Attorney General, dated July 1, 1948, states in effect that an "agent's" license is required for partners who sell securities in Wisconsin on behalf of a partnership which is licensed as a dealer. This is similar to the requirement for officers of a dealer corporation.

Copies of the California and New York amendments and a more detailed discussion of the former, are given in Appendix A and B of this report.

1949 Legislative Sessions

The legislatures of 44 states will be in regular session next year. Members of Group State Legislation Committees are urged to keep in touch with these sessions and be on the lookout for any amendments to blue sky laws or other legislation that would affect our business. A list of the state legislatures which are meeting in 1949, and the dates on which the sessions will start, are given in Appendix C of this report.

Respectfully submitted,

State Legislation Committee

George F. Noyes (Chairman); Richard W. Simmons (Vice-Chairman); George K. Baum; Waller C. Brinker; Todd Cartwright; E. W. Darmstatter; Elmer A. Dittmar; Edwin B. Horner; Eldon H. Keller; Stanley R. Manske; Norbert W. Markus; George W. Marshall; William Moore; Frederic P. Mullins; Albert C. Purkiss; Howard P. Richardson; Charles S. Vrtis; H. Warren Wilson.

Appendix A

California

Section 8 of the Corporate Securities Act provided that every instalment purchase contract involving the sale of a security proposed to be used by any broker in the regular course of business should be upon a form which shall have been submitted to, and approved by, the Commissioner and which shall contain clauses giving specified information. Difficulty under this section arose when the purchasers under "when, as and if issued" contracts sought to rescind their contracts after the price of the securities to be acquired under the contracts declined on the ground that the "when, as and if issued" contracts were "installment purchase" contracts within the meaning of Section 8 of the Corporate Securities Act . . . and that such contracts were, therefore, absolutely void because they had not been made on a form approved by the Commissioner in compliance with Section 8. Naturally, the people in our business had been doing business in "when, as and if issued" contracts upon the assumption that such contracts were not installment contracts within the meaning of Section 8 of the California Act. When the lower court sustained the contention of the purchaser in this case (*Grueninger v. Livingstone & Co.*) the effect was (1) to make the seller liable to return the deposit on the "when, as and if issued" contracts and (2) to make the seller absorb the loss incurred by the subsequent drop in price of the securities covered by the contracts. The possible repercussions of this decision were enormous in view of the possibility that other purchasers under "when, as and if issued" contracts covering securities which dropped in value might, if such contracts had not been made in compliance with Section 8, sue to rescind their contracts with the consequences indicated above. Section 8 was amended in an attempt to make it clear that "when, as and if issued" contracts were not "installment purchase contracts" within the meaning of that section.

In an attempt to make the new provision effective retroactively to cut off the commencement of further suits upon the theory of the Grueninger case, the section was also amended to provide that "the term 'installment purchase contract' has had and does have the meaning provided for in this section, but the amendment of this section in 1948 shall not affect any transaction or other matter which is being contested or inquired into in any legal proceeding pending and undetermined at the time such amendment takes effect."

Section 8 of the Corporate Securities Act was amended, effective April 27, 1948, to read as follows (all matter in italic is new; all language in brackets was deleted):

"Sec. 8 (a) Every installment purchase contract involving the sale of a security proposed to be used by any broker in the regular course of business shall be upon a form which shall have been submitted to and approved by the commissioner, and shall contain clauses specifying;

"(i) The time within which the

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purchase of such security is to be made by such broker.

"(ii) The time within which delivery of such security shall be made. [after such deposit.]

"(iii) The conditions, if any, under which calls for additional [margin] *payment* may be made.

"(iv) Any other provision which the commissioner may deem necessary for the protection of the parties to the purchase of such security.

"(b) *An 'installment purchase contract' as referred to in this section shall be deemed to be any contract for the purchase of a security used by a broker in which the purchaser agrees to pay for the securities in designated periodical installments on specified dates.*

"(c) *A 'margin' contract, 'when issued' contract or 'when distributed' contract, as generally known in brokerage practice or securities business, or 'any contract' involving the purchase or sale of securities used by a broker, shall not be deemed to be an 'installment purchase contract' within the meaning of this section merely because such contract involves a deposit or down payment and an implied or express agreement for the payment of the balance or any part thereof upon demand by the broker when the security purchased for or sold to the customer becomes ready for delivery, or when the deposit or down payment of the customer, in the judgment of the broker, becomes impaired or insufficient.*

"(d) *Any contract referred to in subdivision (c) of this section need not be submitted to or approved by the commissioner, unless, in the discretion of the commissioner, he shall require the filing of any form of contract referred to in subdivision (c) of this section and in which event no use thereof shall be made unless and until the commissioner shall have approved said use thereof.*

"(e) *The term 'installment purchase contract' has had and does have the meaning provided for in this section, but the amendment of this section in 1948 shall not affect any transaction or other matter which is being contested or inquired into in any legal proceeding pending and undetermined at the time such amendment takes effect.*"

Appendix B

New York

The following section was added to the Fraudulent Practices Act (Martin Act), effective Feb. 25, 1948:

"Sec. 352-b. Any person, partnership, corporation, company, trust or association resident or having his or its principal place of business without the state or organized under and by virtue of the laws of a foreign state, who or which shall do business in this state as a dealer, as defined in section three hundred fifty-nine-e of this article, shall be deemed to have irrevocably appointed the secretary of state as his or its agent upon whom may be served any summons, subpoena, subpoena duces tecum or other process directed to such person, partnership, corporation, company, trust or association, or any partner, principal, managing agent, officer or director thereof, in any action or proceedings brought by the attorney general under the provisions of this article arising out of or in connection with any transaction, matter or thing relating to the practices, affairs, management or business of such person, partnership, corporation, company, trust or association. Any such person, partnership, corporation, company, trust or association may file with the secretary of state a designation, in terms complying herewith, duly acknowledged, irrevocably appointing the secretary of state as his or its agent upon whom may be served any such process; provided, however, that a designation filed with the secretary of state pursuant to section three hundred fifty-two-a of this article or section two hundred ten of the general corporation law shall serve also as such designation. Service of such process upon the secretary of state shall be made by personally delivering to and leaving with him or a deputy secretary of state a copy thereof at the office of the department of state in the city of Albany, and such service shall be sufficient service provided that notice of such service and a copy of such process are forthwith sent by the attorney general to such person, partnership, corporation, company, trust or association, by registered mail with return receipt requested, at his or its office as set forth in the 'dealer's statement' filed in the department of law pursuant to section three hundred fifty-nine-e, subdivision two, of this article, or in default of the filing of such 'dealer's statement,' at the last address known to the attorney general. Service of such process shall be complete ten days after the receipt by the attorney general of a return receipt purporting to be signed by the addressee or a person qualified to receive his or its registered mail, in accordance with the rules and customs of the post office department, or, if acceptance was refused by the addressee or his or its agent, ten days after the return to the attorney general of the original envelope bearing a notation by the postal authorities that receipt thereof was refused."

Appendix C

Calendar For 44 State Legislatures Which Meet in Regular Session In 1949

State	Date of Meeting
Alabama	May 3
Arizona	Jan. 10
Arkansas	Jan. 10
California	Jan. 3
Colorado	Jan. 5
Connecticut	Jan. 5
Delaware	Jan. 5
Florida	Apr. 5
Georgia	Jan. 10
Idaho	Jan. 3
Illinois	Jan. 5
Indiana	Jan. 6
Iowa	Jan. 10
Kansas	Jan. 4
Maine	Jan. 5
Maryland	Jan. 5
Massachusetts	Jan. 5
Michigan	Jan. 5
Minnesota	Jan. 4
Missouri	Jan. 5
Montana	Jan. 3
Nebraska	Jan. 4
Nevada	Jan. 17
New Hampshire	Jan. 5
New Jersey	Jan. 11
New Mexico	Jan. 11
New York	Jan. 5
North Carolina	Jan. 5
North Dakota	Jan. 4
Ohio	Jan. 3
Oklahoma	Jan. 4
Oregon	Jan. 10
Pennsylvania	Jan. 4
Rhode Island	Jan. 4
South Carolina	Jan. 11
South Dakota	Jan. 4
Tennessee	Jan. 3
Texas	Jan. 11
Utah	Jan. 10
Vermont	Jan. 5
Washington	Jan. 10
West Virginia	Jan. 12
Wisconsin	Jan. 12
Wyoming	Jan. 11

The legislatures of Kentucky, Louisiana, Mississippi and Virginia will not meet in **regular** session in 1949, but could be called into **special** session.

In Attendance at IBA Convention

(Continued from page 26)

CARR, FRANK C.
John Nuveen & Co., Chicago

***CARTER, Jr., HUGH D.**
Courts & Co., Atlanta

CASEY, DOUGLAS
A. C. Allyn & Co., Chicago

***CASSELL, CLAIR F.**
C. F. Cassell & Co., Charlottesville

CHAPMAN, RALPH
Farwell, Chapman & Co., Chicago

CHAPMAN, R. C.
Maynard H. Murch & Co., Cleveland

CHAPPELL, WILLIAM B.
First Boston Corp., New York

CHILDRESS, FRANCIS B.
Childress & Co., Jacksonville

CHRISTOPHER, WILLIAM
R. W. Pressprich & Co., New York

***CLAPP, Jr., JOHN J.**
R. W. Pressprich & Co., New York

***CLARK, GEORGE E.**
Adamex Securities Corp., New York

***CLARK, ROBERT E.**
Calvin Bullock, New York

CLARK, WILLIAM H.
Merrill, Turben & Co., Cleveland

***CLARK, HAGOOD**
Johnson, Lane, Space & Co., Atlanta

CLARKE, JOHN W.
John W. Clarke, Inc., Chicago

CLAY, Jr., HARRY
"Commercial & Financial Chronicle," New York

CLAYTON, C. COMSTOCK
Clayton Securities Corp., Boston

CLIFFORD, HARRY C.
Kidder, Peabody & Co., New York

***COGGESHALL, GEORGE K.**
Schoellkopf, Hutton & Pomeroy, New York

***COHEN, MORTIMER A.**
Sterne, Agee & Leach, Montgomery

***COHU, HENRY W.**
Cohu & Co., New York

COLLIER, W. T. K.
Collier, Norris & Quinlan, Montreal

***COLLINS, JULIEN H.**
Julien Collins & Co., Chicago

*Denotes Mr. and Mrs.

COLYER, CHARLES M.
Central National Bank, Cleveland

***CONDON, RAYMOND V.**
B. J. Van Ingen & Co., Chicago

COOK, A. HALSEY
National City Bank, New York

***COOK, HAROLD H.**
Spencer Trask & Co., New York

COOK, Robert H.
B. J. Van Ingen & Co., Miami

COOPER, WALTER W.
F. S. Smithers & Co., New York

***CORRINGTON, JOHN W.**
Paine, Webber, Jackson & Curtis, Chicago

***COUFFER, JAMES G.**
B. J. Van Ingen & Co., New York

COUIG, J. DALTON
Hirsch & Co., New York

***COURTS, MALON C.**
Courts & Co., Atlanta

COX, M. J. M.
Curtiss, House & Co., Cleveland

COXON, THOMAS T.
Hallgarten & Co., New York

***CRAFT, ROBERT H.**
Guaranty Trust Co., New York

***CRAIGIE, WALTER W.**
F. W. Craigie & Co., Richmond

CREELY, WALTER J.
Goldman Sachs & Co., St. Louis

CROMWELL, W. REX
Dallas Rupe & Son, Dallas

CROSS, LOUIS J.
Paul H. Davis & Co., Chicago

CROUSE, CHARLES B.
Crouse & Co., Detroit

CROUTER, GORDON,
DeHaven & Townsend, Crouter & Bodine, Philadelphia

***CROWELL, WARREN H.**
Crowell, Weedon & Co., Los Angeles

***CRUNKLETON, JOHN R.**
Mercantile Trust Co., Baltimore

CURREY, BROWNLEE O.
Equitable Securities Corp., Nashville

DAIN, JAMES M.
J. M. Dain & Co., Minneapolis

DALENZ, JOHN McG.
Calvin Bullock, New York

DAVIDS, MARK
Lester & Co., Los Angeles

***DAVIS, ARTHUR G.**
Invest. Bankers Assoc., Chicago

DAVIS, DeWITT
Welsh, Davis & Co., Chicago

DECKER, O. PAUL
American National Bank, Chicago

DELAFIELD, RICHARD M.
First Boston Corp., Chicago

de la VERGNE, J. H.
Weil & Arnold, New Orleans

***DEMPSEY, DUMONT G.**
Newhard, Cook & Co., St. Louis

***DeSTAEBLER, EUGENE**
F. S. Moseley & Co., New York

DeSWARTE, BRUCE H.
Continental Illinois Bank, Chicago

***DETMER, HOWARD F.**
Detmer & Co., Chicago

***DEWAR, HAL H.**
Dewar, Robertson & Pancoast, San Antonio

*Denotes Mr. and Mrs.

DILLMAN, DAVID
"Journal of Commerce," Chicago

DITTMAR, ELMER A.
Dittmar & Co., San Antonio

***DOERGE, CARL H.**
Wm. J. Mericka & Co., Cleveland

DOMINICK, BAYARD II
Dominick & Dominick, New York

***DONNALLY, J. P.**
Peoples National Bank, Charlottesville

***DOOLITTLE, ROY W.**
Doolittle & Co., Buffalo

DORBRITZ, ERNEST O.
Moore, Leonard & Lynch, Pittsburgh

DOWNEY, NORMAN S.
Union Securities Corp., New York

DOWNING, JAMES B.
Baumgartner, Downing & Co., Baltimore

DROBNIS, GEORGE J.
69 W. Washington Street, Chicago

***DuBOIS, ALLEN C.**
Wertheim & Co., New York

DUHME, HERMAN
Reinholdt & Gardner, St. Louis

DUNN, EDWARD K.
Robert Garrett & Sons, Baltimore

DUNN, STEWART A.
C. J. Devine & Co., New York

DUNNE, NEWMAN L.
Robert W. Baird & Co., Milwaukee

DUNSTAN, E. F.
International Bank, New York

***DUVAL, GORDON B.**
Guaranty Trust Co., New York

EATON, Jr., CHARLES F.
Eaton & Howard, Boston

EDWARDS, JOHN H.
R. J. Edwards, Inc., Oklahoma City

***EDWARDS, WILLIAM N.**
William N. Edwards & Co., Fort Worth

***EICHELBERGER, ROBERT L.**
War Department, Washington

***ELCOOK, SAM L.**
Gables Letter Service, Coral Gables

***ELKINS, Jr., GEORGE W.**
Elkins, Morris & Co., Philadelphia

ELLSWORTH, SHERMAN
Wm. P. Harper & Son & Co., Seattle

EMERSON, EVERETT S.
Emerson, Roche & Co., San Antonio

EMERSON, SUMNER B.
Morgan Stanley & Co., New York

***EMERSON, WILLARD I.**
Hemphill, Noyes & Co., New York

EMPEY, LESTER H.
American Trust Company San Francisco

***EMRICH, MILTON S.**
Julien Collins & Co., Chicago

ESTES, WAYNE J.
Estes & Co., Topeka

EVANS, CLEMENT A.
Clement A. Evans & Co., Atlanta

EVANS, THOMAS W.
Continental Illinois Bank, Chicago

FAATH, HARRY W.
Tripp & Co., New York

***FAHEY, LESLIE J.**
Fahey, Clark & Co., Cleveland

*Denotes Mr. and Mrs.

FARRELL, F. D.
City National Bank & Tr. Co., Kansas City

FELDMANN, HERMAN A.
Geyer & Co., New York

FENNELLY, JOHN F.
Glore, Forgan & Co., Chicago

***FINNEY, Jr., HOWARD**
Bear, Stearns & Co., New York

FISH, IRVING D.
Smith, Barney & Co., New York

FISHER, CHARLES N.
Singer, Deane & Scribner, Pittsburgh

***FLEMING, CHARLES J.**
Hanrahan & Co., Worcester

***FLINT, JOHN G.**
Kidder, Peabody & Co., Boston

FOLGER, JOHN CLIFFORD
Folger, Nolan, Inc., Washington

FORDON, RALPH
Watkins & Fordon, Detroit

FORREY, Jr., GEORGE C.
Indianapolis Bond & Share Corp., Indianapolis

***FOSTER, ALBERT O.**
Foster & Marshall, Seattle

***FRIEND, ARTHUR S.**
Folger, Nolan, Inc., Washington

***FRITZ, EMDON**
American Securities Corp., New York

FRYE, CHARLES S.
"Journal of Commerce," Chicago

***FUGLESTAD, ARNE**
White, Weld & Co., New York

FURLONG, THOMAS R.
"Chicago Tribune," Chicago

GAIRDNER, JAMES A.
Gairdner & Co., Toronto

GALLAGER, HERBERT V. B.
Yarnall & Co., Philadelphia

GALLAGHER, FRANCIS P.
Kidder, Peabody & Co., New York

GANDER, MacLEAN
Dominick & Dominick, New York

GARDNER, FRED W.
Reinholdt & Gardner, St. Louis

***GARNER, J. FRANKLIN**
Welsh, Davis & Co., Chicago

GATCHELL, EARLE
Hayden, Stone & Co., New York

GEDDES, EUGENE M.
Clark, Dodge & Co., New York

GEIS, LEONARD B.
Newburger & Co., Philadelphia

GERNON, FRANK E.
Carl M. Loeb, Rhoades & Co., New York

GEYER, GEORGE
Geyer & Co., New York

GIBBONS, Jr., GEORGE B.
Geo. B. Gibbons & Co., New York

GILBREATH, Jr., W. SYDNOR
First of Michigan Corp., Detroit

GILLES, GEORGE J.
A. C. Allyn & Co., New York

GLASSMEYER, Jr., EDWARD
Blyth & Co., New York

GLOVER, W. WAYNE
California Bank, Los Angeles

***GOLDSMITH, BERTRAM M.**
Ira Haupt & Co., New York

GOODBODY, HAROLD P.
Goodbody & Co, New York

GRAHAM, JAMES S.
Allison-Williams Co., Minneapolis

***GRIMM, WILLARD T.**
Kidder, Peabody & Co., Chicago

GRINNELL, GEORGE M.
Dick & Merle-Smith, New York

GRUNER, GEORGE
Lee Higginson Corp., New York

***HAGAN, Jr., JOHN C.**
Mason-Hagan, Inc., Richmond

***HAGEMAN, E. KENNETH**
G. H. Walker & Co., St. Louis

***HAGEMAN, Jr., H. FREDERICK**
Rockland-Atlas National Bank, Boston

HALL, HERBERT S.
Morgan Stanley & Co., New York

***HALLOWELL, HENRY R.**
Hallowell, Sulzberger & Co., Philadelphia

***HAMMOND, WILLIAM H.**
Braun, Bosworth & Co., Chicago

***HANRAHAN, PAUL B.**
Hanrahan & Co., Worcester

HANSEL, DOUGLAS R.
Wertheim & Co., New York

HANSON, MURRAY
Investment Bankers Assn., Washington

HAPP, WILLIAM A.
"St. Louis Globe-Democrat" St. Louis

HARDER, LEWIS B.
Harris, Upham & Co., New York

HARPER, W. PAUL
Boatmen's National Bank, St. Louis

HASSMAN, ELMER G.
A. G. Becker & Co., Chicago

HASTINGS, BYRON
Parker Corp., Chicago

***HATCHER, LLOYD B.**
Trust Co., of Georgia, Atlanta

HATCHER, ROBERT L.
Chase National Bank, New York

HAWES, HARDIN H.
Harris Trust & Savings Bank, Chicago

HAZELWOOD, CHARLES F.
E. H. Rollins & Sons, New York

***HEFFERNAN, PAUL**
New York "Times," New York

HEIMERDINGER, JOHN G.
Walter, Woody & Heimerdinger, Cincinnati

HELLER, JAMES M.
J. C. Bradford & Co., New York

***HENDERSHOT, RALPH**
New York "World-Telegram," New York

HENDRIX, WILLARD R.
Equitable Securities Corp., Nashville

HESS, WILBUR E.
Fridley & Hess, Houston

HILDRETH, WILLIAM S.
Peoples National Bank, Charlottesville

***HILL, CAREY S.**
Hill Richards & Co., Los Angeles

HILL, MALVERN
Stranhan, Harris & Co., New York

HIPKINS, C. A.
Braun, Bosworth & Co., New York

HOLT, ROBERT L.
Blair & Co., Chicago

***HONNOLD, PHILIP C.**
C. Edgar Honnold, Oklahoma City

HOPKINSON, Jr., EDWARD
Drexel & Co., Philadelphia

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In Attendance at IBA Convention

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HORNADAY, HILTON
Buffalo "Evening News"
Buffalo

***HORNER, EDWIN B.**
Scott, Horner & Mason,
Lynchburg

HORNING, BERT H.
Stifel, Nicolaus & Co., St. Louis

***HOUSTON, Jr., JOSEPH C.**
Calvin Bullock, Chicago

***HOWE, PAUL D.**
A. Webster Dougherty & Co.,
Philadelphia

HOYE, WILBUR G.
Chas. W. Scranton & Co.,
New Haven

***HUDSON, FRED W.**
Ball, Burge & Kraus,
Cleveland

HUFF, ROBERT H.
Blair & Co., New York

***HUGHES, ALBERT R.**
Lord, Abbett & Co., Chicago

HUGHES, W. SHANNON
Raffensperger, Hughes & Co.,
Indianapolis

***HUGHES, WILLIAM S.**
Wagenseller & Durst,
Los Angeles

***HULME, MILTON G.**
Glover & MacGregor,
Pittsburgh

HUNT, E. JANSEN
White, Weld & Co., New York

HURLEY, WILLIAM L.
Baker, Simonds & Co., Detroit

***HUTTON, Jr., JAMES**
W. E. Hutton & Co., Cincinnati

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W. E. Hutton & Co., New York

JACKSON, CARL W.
Harris, Hall & Co., Chicago

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William R. Staats Co.,
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JARVIS, W. H. R.
McLeod, Young, Weir, Inc.,
New York

***JENKS, MORTON**
Jenks, Kirkland & Co.,
Philadelphia

JENNETT, EDWARD J.
First National Bank, Chicago

JOHANIGMAN, S. E.
Milwaukee Company, Chicago

JOHNSON, JOSEPH T.
Milwaukee Co., Milwaukee

***JOHNSON, THOMAS M.**
Johnson, Lane, Space & Co.,
Savannah

***JOHNSON, WILLIAM A.**
Mason, Moran & Co.,
Milwaukee

***JOHNSTON, EDWARD S.**
Wood, Gundy & Co., New York

JONES, CHARLES F.
First Securities Corp., Durham

JONES, ELISHA RIGGS
E. R. Jones & Co., Baltimore

***JOSEPH, HERMAN B.**
T. H. Jones & Co., Cleveland

KAELIN, WILLIAM R.
Baker, Weeks & Harden,
New York

KALES, DAVIS
Wood, Gundy & Co., New York

***KAUFMAN, C. G.**
Shields & Co., Chicago

KEBBON, RICHARD A.
Kebbon, McCormick & Co.,
Chicago

KERR, WILLIAM D.
Bacon, Whipple & Co., Chicago

***KING, JOSEPH H.**
Union Securities Corp.,
New York

***KING, WILLIAM T.**
Rockland-Atlas National Bank,
Boston

***KIRKPATRICK, S. R.**
Kirkpatrick-Pettis Co., Omaha

KLEIN, GUSTAV
Mead, Miller & Co., Baltimore

KNEASS, GEORGE B.
Philadelphia National Bank,
Philadelphia

KNIGHT, FRANCIS M.
Continental Illinois Bank,
Chicago

KNOX, JOHN T.
Federal Land Banks, New York

KOHLER, B. M.
H. C. Speer & Sons Co.,
Chicago

***LABOUISSE, JOHN P.**
Howard, Labouisse, Friedrichs
& Co., New Orleans

LAING, C. W.
John Nuveen & Co., Chicago

LANE, ARTHUR D.
Chase National Bank,
New York

LATHAM, SIDNEY
Finance Publishing Corp.,
New York

LAUD-BROWN, WELLS
Bankers Trust Co., New York

LAWSHE, EMMETT
Shields & Co., New York

LEACH, ORIN T.
Estabrook & Co., New York

LEATHER, B. H.
New York "Times," New York

LEE, JAMES J.
Lee Higginson Corp.,
New York

***LEES, LEON**
Ira Haupt & Co., New York

LEHMAN, ORIN
Lehman Brothers, New York

LEMKAU, HUDSON B.
Morgan Stanley & Co.,
New York

***LEMON, JAMES H.**
Johnston, Lemon & Co.,
Washington

LEWIS, DAVID J.
Paine, Webber, Jackson &
Curtis, New York

***LEWIS, Jr., ED. S.**
Lewis & Co., Jackson

LEWIS, MEAD A.
Dick & Merle-Smith, New York

LEWIS, SALIM L.
Bear, Stearns & Co., New York

LIEBENFROST, CONRAD H.
Stern, Lauer & Co., New York

LINCOLN, MARY R.
Investment Bankers Assn.,
Chicago

***LIND, HERMAN L.**
Camp & Co., Portland

LINDSEY, JOHN
Natl. Assn. Securities Dealers,
Washington

LINEN, JOHN S.
Chase Nat. Bank, New York

***LINSLEY, DUNCAN R.**
First Boston Corp., New York

LITTLE, ALDEN H.
Investment Bankers Assn.,
Chicago

LLOYD, H. GATES
Drexel & Co., Philadelphia

LOEWI, J. VICTOR
Loewi & Co., Milwaukee

LOFTUS, EDGAR J.
R. S. Dickson & Co., New York

***LOOMIS, CHARLES H.**
First National Bank, St. Paul

***LOOMIS, JOHN S.**
Illinois Company, Chicago

***LOW, V. THEODORE**
Bear, Stearns & Co., New York

LUCKE, FRANK L.
Laidlaw & Co., New York

LUDCKE, G. L.
Putnam Fund Distributors,
Boston

LUDIN, JOSEPH
Dillion, Read & Co., New York

LYKLEMA, W. C.
A. C. Allyn & Co., Chicago

***LYNCH, Jr., C. McK.**
Moore, Leonard & Lynch,
Pittsburgh

LYONS, SAM B.
Finance Publishing Co.,
Chicago

***LYONS, Jr., W. L.**
W. L. Lyons & Co., Louisville

MACDONALD, RANALD H.
Dominick & Dominick,
New York

MALICK, JOHN S.
Fidelity-Philadelphia Trust Co.,
Philadelphia

***MALLORY, WALDO W.**
Clement A. Evans & Co.,
Atlanta

MARKS, LAURENCE M.
Laurence M. Marks & Co.,
New York

MARKUS, NORBERT W.
Smith, Barney & Co.,
Philadelphia

MARTIN, BENNETT S.
First Trust Company, Lincoln

***MARTIN, GEORGE L.**
Martin, Burns & Corbett,
Chicago

***MARTIN, GEORGE R.**
Security-First National Bank,
Los Angeles

MARTIN, WAYNE
Milhous, Martin & Co., Atlanta

MASON, CAROLYN G.
Walter G. Mason, Lynchburg

***MASON, ROBERT**
Central Republic Company,
New York

***MASON, WALTER G.**
Scott, Horner & Mason,
Lynchburg

MATTHEWS, ROBERT H.
G. H. Walker & Co., St. Louis

MAXWELL, JOHN M.
Northern Trust Co., Chicago

MAY, J. DENNY
Parker Corporation, Boston

McCLURE, NATHAN D.
Harriman Ripley & Co.,
Chicago

***McCONNAUGHEY, ROBERT K.**
Securities & Exchange Comm.,
Washington

***McCORMICK, D. DEAN**
Kebbon, McCormick & Co.,
Chicago

***McCURDY, WALLACE M.**
Thayer, Baker & Co.,
Philadelphia

McDONALD, CHARLES B.
McDonald & Co., Cleveland

McDONALD, HARRY A.
Securities & Exchange Comm.,
Washington

McDONNELL, DONALD N.
Blyth & Co., New York

McELROY, DAVID B.
J. P. Morgan & Co., New York

McEWAN, GEORGE S.
Paul H. Davis & Co., Chicago

McFARLAND, DONALD E.
Kalman & Co., Minneapolis

McGREW, EDWARD D.
Northern Trust Co., New York

McGUIRK, WILLIAM
Kuhn, Loeb & Co., New York

***McMAHON, EUGENE G.**
Heller, Bruce & Co., New York

***McMILLAN, JOHN S.**
Dempsey-Tegeler & Co.,
St. Louis

MEANS, J. W.
Courts & Co., Atlanta

MERRELL, Jr., ROLAND
Lee Higginson Corp., Chicago

MERRITT, WILBUR M.
First Boston Corp., New York

MEYER, Jr., LOUIS
Stern, Frank & Meyer,
Los Angeles

MEYERS, EDWARD J.
Laidlaw & Co., New York

***MIDDLEMIST, JOHN H.**
Northwestern National Bank,
Minneapolis

MILLER, JAMES K.
Dominion Securities Corp.,
New York

MINOR, STANLEY N.
Pacific Northwest Co., Seattle

MITCHELL, BYRON R.
Society for Savings, Cleveland

MITCHELL, EARLY F.
First National Bank, Memphis

MONTGOMERY, HARRY T.
Associated Press, New York

MOORE, JAMES A.
Welsh, Davis & Co., Chicago

MOORE, RODERICK D.
Branch, Cabell & Co.,
Richmond

***MORELAND, J. MARVIN**
Rotan, Mosle & Moreland,
Galveston

MOREY, Jr., RICHARD
A. G. Edwards & Sons, St. Louis

MORGAN, 2nd, WILLIAM B.
Stroud & Co., Philadelphia

***MORRIS, GEORGE L.**
Hornblower & Weeks, Philadelphia

MORRISON, A. B.
A. B. Morrison & Co., Miami

***MORSE, FRANK H.**
Lehman Brothers, New York

***MORTON, WILLIAM H.**
W. H. Morton & Co., New York

MUDGE, LOUIS G.
International Bank, New York

MULLANEY, PAUL L.
Mullaney, Wells & Co., Chicago

MULLINS, FREDERIC P.
A. E. Masten & Co., Pittsburgh

MURPHY, JOSEPH D.
Stifel, Nicolaus & Co., Chicago

NADLER, MARCUS
NYU, New York

NAUMBURG, CARL T.
Stern, Lauer & Co., New York

NELSON, EDWARD H.
Kidder, Peabody & Co., New York

NEUHAUS, JOSEPH R.
Underwood, Neuhaus & Co., Houston

NEUHAUS, PHILIP R.
Underwood, Neuhaus & Co., Houston

NEWELL, RICHARD M.
Dillon, Read & Co., New York

***NEWHARD, CHAPIN S.**
Newhard, Cook & Co., St. Louis

NIELSEN, EINER
J. C. Bradford & Co., Nashville

***NIX, ALLEN J.**
Riter & Co., New York

***NOEL, RICHARD C.**
Van Alystyne, Noel & Co., New York

NORTH, LUDLOW F.
Robert W. Baird & Co., Milwaukee

NOURSE, CLIFTON F.
Illinois Company, Chicago

NOYES, GEORGE F.
Illinois Company, Chicago

***OSGOOD, ROBERT L.**
Vance, Sanders & Co., Boston

***OTIS, C. BARRON**
The "Bond Buyer," New York

OWEN, RALPH
Equitable Securities Corp., Nashville

***PACE, CLARK R.**
"Business Week," New York

***PAIDAR, LEONARD J.**
Goodbody & Co., Chicago

PARISH, 2nd, HENRY
Carl M. Loeb, Rhoades & Co., New York

PARKER, E. CUMMINGS
Glore, Forgan & Co., Chicago

PARKER, NATHAN K.
Kay, Richards & Co., Pittsburgh

PARKER, WILLIAM A.
Parker Corporation, Boston

PARRY, SIDNEY L.
Assn. of Stock Exchange Firms New York

PERRIGO, CHARLES R.
Hornblower & Weeks, Chicago

PETERS, GERALD P.
Peters, Writer & Christensen, Denver

PETERSON E. NORMAN
Equitable Securities Corp., New York

***PFEFFER, D. K.**
National City Bank, New York

*Denotes Mr. and Mrs.

***PIERCE, Jr., DANIEL T.**
Hirsch & Co., New York

PIETROWICZ, STEPHEN
"Chicago Tribune," Chicago

***PIGOTT, JAMES M.**
Central Republic Co., Chicago

***PIPER, JOHN S.**
San Francisco "News," San Francisco

***PLEASANTS, AARON W.**
International Trust Company, Denver

***POHLHAUS, WALTER C.**
Mackubin, Legg & Co., Baltimore

PONTIUS, MILLER H.
F. Eberstadt & Co., New York

POPPER, ELVIN K.
I. M. Simon & Co., St. Louis

POSTLETHWAITE, J. RUSSELL
Irving Lundborg & Co., San Francisco

POWERS, LESTER
Dominick & Dominick, New York

***PRANKARD, 2nd, HARRY I.**
Lord, Abbett & Co., New York

PRESCOTT, JOHN A.
Prescott, Wright, Snider Co., Kansas City

PRETTYMAN, CHARLES B.
Welsh, Davis & Co., Chicago

PRICE, 3rd, WILLIAM J.
Alex. Brown & Sons, Baltimore

PROSSER, MALCOLM S.
Seattle-First National Bank, Seattle

PUTNAM, GEORGE
Putnam Fund Distributors, Boston

QUAIL, JOHN J.
Quail & Co., Davenport

QUIGG, JAMES F.
Paine, Webber, Jackson & Curtis, Chicago

RALPH, HENRY A. J.
Bank of America, New York

***RANDALL, CLARENCE B.**
Inland Steel Co., Chicago

RANKIN, HARLEY L.
Girard Trust Co., Philadelphia

RASH, DILLMAN A.
J. J. B. Hilliard & Son, Louisville

RATCLIFFE, MYRON
Lehman Brothers, New York

RAUCH, ALFRED,
Kidder, Peabody & Co., Philadelphia

RAUSCHER, JOHN H.
Rauscher, Pierce & Co., Dallas

***REDMAN, W. GUY**
A. G. Edwards & Sons, St. Louis

REDWOOD, Jr., JOHN
Baker, Watts & Co., Baltimore

REID, FRANK B.
Maynard H. Murch & Co., Cleveland

REILLY, F. VINCENT
"Commercial & Financial Chronicle," New York

REINHOLDT, Jr., JULIUS W.
Reinholdt & Gardner, St. Louis

REISSNER, FRANK L.
Indianapolis Bond & Share Corp., Indianapolis

***REUTER, F. BRIAN**
Mellon National Bank, Pittsburgh

REVITS, SAMUEL,
C. J. Devine & Co., New York

REX, WILLIAM M.
Clark, Dodge & Co., New York

RICE, IRVING J.
Irving J. Rice & Co., St. Paul

RIEPE, J. CREIGHTON
Alex. Brown & Sons, Baltimore

RIPPEL, JULIUS A.
Julius A. Rippel, Inc., Newark

***RITER, HENRY G. 3rd**
Riter & Co., New York

ROBINSON, ARTHUR R.
Fidelity Union Trust Co., Newark

ROBINSON, EDWARD H.
Schwabacher & Co., New York

ROCHE, DAVID T.
Emerson, Roche & Co., Austin

RODDY, JAMES E.
Scharff & Jones, New Orleans

ROSEN, JUDITH S.
Investment Bankers Assn., Chicago

ROUSE, ROBERT G.
Federal Reserve Bank, New York

ROVENSKY, WILLIAM R.
Hornblower & Weeks, New York

***ROWE, ROBERT G.**
Stroud & Co., Philadelphia

ROWLES, RUSSELL R.
Rowles, Winston & Co., Houston

SANDBERG, MAURICE H.
A. E. Weltner & Co., New York

***SCHAUST, GEORGE J.**
First National Bank, Minneapolis

SCHINDHELM, GEORGE
California Bank, Los Angeles

SCHLUTER, HAROLD J.
First Nat. Bank of Chicago, New York

SCHMIDT, REGINALD M.
Blyth & Co., New York

SCHMIDT, WALTER A.
Schmidt, Poole & Co. Philadelphia

SCHWABACHER, Jr., A. E.
Schwabacher & Co., San Francisco

SCOTT, BUFORD
Scott & Stringfellow, Richmond

SCRIBNER, JOSEPH M.
Singer, Deane & Scribner, Pittsburgh

SCUDDER, DANA B.
National City Bank, New York

SCULL, PENROSE
"Fortune Magazine," New York

SENER, JOSEPH W.
Mackubin, Legg & Co., Baltimore

SEVERANCE, CRAIG
F. Eberstadt & Co., New York

SEVING, FREREDICK T.
Butcher & Sherrerd, Philadelphia

***SHANKS, Jr., SANDERS**
"The Bond Buyer," New York

SHARPE, WILLIAM P.
Mercantile-Commerce Bank, St. Louis

SHAW, HERBERT I.
Vance, Sanders & Co., New York

SHERBOURNE, HAROLD H.
Bacon, Whipple & Co., New York

***SHIELDS, CORNELIUS**
Shields & Co., New York

***SHREVE, WICKLIFFE**
Hayden, Stone & Co., New York

***SILLS, WILLIAM H.**
Sills, Minton & Co., Chicago

SIMMONS, RICHARD W.
Blunt, Ellis & Simmons, Chicago

SIMONDS, CLARK
G. H. Walker & Co., Providence

SIMONDS, RALPH W.
Baker, Simonds & Co., Detroit

SIMONS, BURDICK
Sidlo, Simons, Roberts & Co., Denver

SIMPSON, CRAIG
Bankers Trust Co., New York

SKINNER, DAVID L.
Harriman Ripley & Co., New York

SKINNER, OSCAR
G. H. Walker Co., Providence

SLEZAK, G. EDWARD
Loewi & Co., Milwaukee

***SMITH, DUDLEY C.**
Investment Bankers Assn., Chicago

SMITH, J. RAYMOND
Weeden & Co., New York

SMUCKER, OTTO M.
San-Times, Chicago

***SMUTNY, RUDOLF**
Salomon Bros. & Hutzler, New York

***SPACE, JULIAN A.**
Johnson, Lane, Space & Co., Savannah

SPENCE, W. FREDERICK
Robert Hawkins & Co., Boston

***STABLER, C. NORMAN**
"Herald Tribune," New York

STARRING, Jr., MASON B.
Graham, Parsons & Co., New York

STEARNS, GEORGE
"The Economist," Chicago

STEARNS, PHILIP M.
Estabrook & Co., Boston

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In Attendance at IBA Convention

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STEPHENSON, F. KENNETH
Goldman, Sachs & Co., New York

***STEVENSON, GETHRYN C.**
Bacon, Stevenson & Co., New York

STEVENSON, ROBERT
Investment Bankers Assn., Chicago

***STEWART, PERCY M.**
Kuhn, Loeb & Co., New York

***STRAUS, FREDERICK W.**
Straus & Blosser, Chicago

TAYLOR, C. NEWBOLD
W. H. Newbold's Son & Co., Philadelphia

***TEGELER, JEROME F.**
Dempsey-Tegeler & Co., St. Louis

THOMAS, JOSEPH A.
Lehman Brothers, New York

***THORS, J. EMERSON**
Kuhn, Loeb & Co., New York

***TOMPKINS, HENRY B.**
Robinson-Humphrey Co., Atlanta

***TRIGGER, RAYMOND**
Investment Dealer's Digest, New York

***TROST, MILSON S.**
Stein Bros. & Boyce, Louisville

TRUSLOW, FRANCIS ADAMS
New York Curb Exchange, New York

TSOLAINOS, K. P.
Baker, Weeks & Harden, New York

UFFORD, HENRY M.
Calvin Bullock, Atlanta

***VANDERPOEL, ROBERT P.**
Chicago "Herald-American," Chicago

VALENTA, FRANK L.
Distributors Group, New York

VAN HART, T. GEORGE
Salomon Bros. & Hutzler, New York

VAN SLYCK, MILTON L.
"Journal of Commerce," New York

***VAN WINKLE, PAUL K.**
Paine, Webber, Jackson & Curtis, Chicago

***VARNEDOE, SAMUEL L.**
Varnedoe, Chisholm & Co., Savannah

VINSON, EGERTON B.
DeHaven & Townsend, Crouter & Bodine, New York

***WAKELEY, THOMPSON M.**
A. C. Allyn & Co., Chicago

WALDMANN, GEORGE R.
Mercantile-Commerce Bank, New York

***WALKER, Jr., G. H.**
G. H. Walker & Co., New York

***WALTER, BENJAMIN A.**
Bingham, Walter & Hurry, Los Angeles

WALTERS, HARRY L.
Girard Trust Co., Philadelphia

WARD, JAMES C.
Third National Bank, Nashville

***WARD, NORMAN B.**
Norman Ward & Co., Pittsburgh

WARREN, JAMES C.
A. M. Kidder & Co., New York

WARREN, ROBERT H.
Geyer & Co., Boston

WASHBURNE, HEMPSTEAD
Harris, Hall & Co., Chicago

***WATERMAN, EARL F.**
Earl F. Waterman & Co., Seattle

WATLING, PALMER
Watling, Lerchen & Co., Detroit

***WATTS, Jr., SEWELL S.**
Baker, Watts & Co., Baltimore

WEED, Jr., W. H.
Union Securities Corporation, New York

WEHRHEIM, ROBERT V.
Philadelphia National Bank, Philadelphia

WELLES, RUSSELL
Central Hanover Bank, New York

WELTNER, ADOLPH E.
A. E. Weltner & Co., Kansas City

WENDT, GEORGE B.
First National Bank, Chicago

WERLY, CHARLES M.
Putnam Fund Distributors, Boston

WERNER, CHARLES C.
Wertheim & Co., New York

***WHEELER, HOWARD S.**
Leedy, Wheeler & Alleman, Orlanda

WHIPPLE, JAY N.
Bacon, Whipple & Co., Chicago

WHITE, ALEXANDER M.
White, Weld & Co., New York

WHITE, HARRY H.
White, Hattier & Sanford, New Orleans

***WHITE, KELTON E.**
G. H. Walker & Co., St. Louis

WHITESIDE, THOMAS
Chace, Whiteside, Warren & Sears, Boston

WIESENBERGER, ARTHUR
Arthur Wiesenberger & Co., New York

WILBUR, LEROY A.
Stein Bros. & Boyce, Baltimore

WILLARD, FRANK A.
Reynolds & Co., New York

***WILLIAMS, EMIL C.**
Chemical Bank & Trust Co., New York

***WILSON, H. WARREN**
Union Securities Corporation, New York

WILSON, LYLE F.
Pacific Northwest Co., Seattle

WILSON, WALTER W.
Morgan Stanley & Co., New York

WILTBERGER, ALFRED S.
Blyth & Co., Chicago

WINGADER, LAWRENCE A.
John Nuveen & Co., Chicago

WINSOR, 3rd, JAMES D.
Biddle, Whelen & Co., Phila.

WINTER, 2nd, EDWIN W.
Investment Bankers Assn., Chicago

WITTER, JEAN C.
Dean Witter & Co., San Francisco

***WOOD, DAVID M.**
Wood, King, & Dawson, New York

WOOD, HAROLD E.
Harold E. Wood & Co., St. Paul

WOODS, RICHARD A.
Merrill Lynch, Pierce, Fenner & Beane, New York

***WOOLNER, ADOLPH**
Bache & Co., New York

***YANTIS, FRANK S.**
F. S. Yantis & Co., Chicago

YORK, Jr., EDWARD H.
Drexel & Co., Philadelphia

*Denotes Mr. and Mrs.

Railroad Securities

Up to the time of this writing neither railroad management nor the representatives of the nonoperating unions have definitely committed themselves as to whether they will accept or reject the recommendations of the Fact Finding Board. There has been some grumbling on the part of some of the labor leaders and some management representatives have also expressed dissatisfaction with the proposals. This was to be expected. It is a very rare occasion when either management or labor publicly applauds such recommendations. It seems probable, however, that eventually both parties will accept the findings.

Obviously the most important part of the recommendation is that dealing with the 40-hour week. The 40-hour week has been so universally accepted throughout industry in recent years that it had long been obvious to any unprejudiced observer that eventually it would have to be extended to embrace the non-operating personnel of the railroads—it is not applicable to the operating unions under their working rules and conditions. The only question was how long it could be held off. The recommendation of the Fact Finding Board was that the 40-hour week be put into effect on Sept. 1, 1949, giving the railroad eight and a half months in which to adjust themselves to new schedules.

One possibility had been particularly feared by railroad management and railroad analysts. That was the demand of the unions that the 40-hour week should fall in the period from Monday through Friday, with overtime penalty rates to apply on work performed Saturdays, Sundays and holidays even though such work came within the 40 hours. Railroading is a seven day a week job. Overtime pay for any work performed on Saturdays and Sundays would indeed have imposed an insuperable burden on the carriers. The Fact Finding Board turned down this part of the demands of the non-operating unions. This was the only possible finding unless it was desired to bring to a head the alternatives of widespread insolvencies or government ownership. Under present conditions it is doubtful if either appears desirable to any but the most, radical elements in the country.

So far as the immediate impact of the Fact Finding Board's recommendations is concerned it is less onerous than had generally been expected. A wage increase of seven cents an hour was found sufficient. This would be retroactive to Oct. 1, 1948. Earlier, the various operating unions had accepted an hourly wage increase of 10 cents. Generally speaking, the railroads had been accruing a similar hourly increase for the non-operating unions from the middle of October. Presumably, then, December reports will reflect credits for the differential between the 10 cents an hour accrued from mid-October and the seven cents recommended from Oct. 1. Also, earnings for the first eight months of 1949 will be somewhat better than had been anticipated.

Institution of the 40-hour week on Sept. 1 is expected to add some $150 million to 1949 expenses. The total increase in costs for next year is estimated at $340 million. Had non-operating employees been granted a straight 10 cents an hour increase for the full year the estimated cost for 1949 would have been $260 million. When the 40-hour week goes into effect it was recommended that the hourly wage rate be increased sufficiently to bring weekly wages to the same level as that now prevailing, excluding the present proposal for a seven cents an hour raise. Granting unchanged conditions this would mean an aggregate annual increase in expenses of $450 million in 1950.

These estimates, of course, are based on the assumption that there will be no increase in efficiency under a 40-hour week. Admittedly the railroads have greater problems in adjusting to the shorter work week than did industry generally. Where a job must be performed 24 hours a day seven days a week there is no way to compress 48 hours' work into 40 hours. There are, however, many places where greater efficiency, or further mechanization, can go far toward offsetting the shorter work week just as was done by other industries. These early estimates of the increased costs of the Board's recommendations, therefore, are apt to prove somewhat high. The market took little notice of the Board's recommendation and to most analysts this absence of selling was fully justified. It now remains to be seen how quickly, and how generally, the ICC will counter with further rate relief.

Labor-Management Responsibility

(Continued from page 13)

ways be kept at any desired figure by control schemes. But the American people do not really want lower prices—even though that is what they think they want—they want to be able to **buy more goods.** Does Senator Morse really think that keeping a lower official price tag on everything would have given us any more materials, made the supply of new houses any larger, or eliminated the restrictive practices which now hamper production? Does he believe that a nation which achieved what we did in the way of bootlegging could be forced to observe regulations which did not have popular support? With money in their pockets and a tremendous new demand, the people would soon create a black market of unprecedented proportions.

It sounds trite to say so, but it cannot be stressed too much. Our problem is one of production. But we should not simply stop there. If we want to understand our needs we must go farther. Barring the temporary checks to activity already referred to our problem is not merely one of production but also one of **saving.** Again let me quote from Lord Keynes: "The object of saving is to release labor for employment in producing goods such as houses, factories, roads, machines, and the like." We could hardly have a better list of our present scarcities. In other words it is not merely production that is needed, but production of a special kind—the production of capital goods—and under present conditions I am sure Lord Keynes would be the first to say that this production cannot be increased without more saving. Yet Mr. Phillip Murray in his article in the July "Atlantic" still speaks as if consumption and more consumption were the chief thing needed to solve our problems. For Mr. Murray has been conditioned to attack profits, and, once we recognize the need for saving, then the case for profits becomes much stronger. Yet come what may the outlook for economic stability at the present time will never be bright until the following idea is somehow grasped: Without saving we cannot create capital. Without capital we cannot supply the wants of the workers. If the lower income groups are not willing to restrict their claims somewhat today, they will never get the higher living standards they want tomorrow. This remains true as a long run proposition even if there should now be a temporary check to activity. Labor's responsibility not only to the public **but to itself** is not to demand a fourth round of wage increases.

II

My time is limited. There is so much I would like to say to you. The mass of vilification and misrepresentation which I read and hear today presses upon me almost with a physical weight. But we must stick to the high spots and ruthlessly curtail explanation.

The lesson of our present scarcities has not failed to be brought home to the more responsible left-wing economists, and they have joined in the cry for saving—but with a difference. For while right-wing economists talk of increased inducements to save and to invest, the more responsible left-wing economists merely talk of taxing consumption. In other words **all** intelligent economists today, of whatever persuasion, know that a fourth round of wage increases at the present time will do no good. **All** of them know that a further increase in mass purchasing power and attempted consumption is likely to be disastrous. If any economist denies this he is either unintelligent or dishonest. But many left-wing economists wish to handle the matter solely by state action.

Now it cannot be denied that taxation of consumption, by removing excess mass purchasing power, will relieve the pressure on prices — so far as direct money outlay is concerned. But it **won't give people more goods** and therefore it is not likely to halt social unrest. It is precisely because I think that the lower income groups **ought** to have more goods as soon as possible that I am not a follower of the left-wing program. In order to have more goods we must have more production. This brings us to the real point.

Barring those mistaken, misinformed, or dishonest individuals who maintain that mere price control will do the job, the argument of the left-wing economists today must be that the government will be a better producer than private enterprise. In other words they intend to tax consumption, transfer the funds to government, and embark on a huge series of government outlays in housing, steel, etc., to meet the shortage. The point we have got to ask ourselves is—would this really be the better way?

In the debate between socialism and capitalism there is one theme constantly "plugged" by the left-wing. It is the idea that "capitalism, or planlessness, brings depression." And should a recession occur in the near future the cry will immediately be raised that had it not been for inflation "due to repeal of the OPA" there would have been no depression. Consumers, it is said, "were priced out of the market by avaricious business men" and that is the cause of depression. Plausible though this argument can be made to sound, I believe is to be almost entirely mistaken.

If we were to draw up a table listing the advantages and the disadvantages of capitalism, the score would look something like this: On the credit side for capitalism one would list its tremendous long-run productive efficiency, the relative freedom of choice which it gives compared to other systems, and the freedom, also not absolute but relative to other systems, which it gives to the independent new idea. On the bad side one would list depressions and insecurity. Few of us could be believers in the fundamentals of the capitalist order if we did not feel that a great deal could be done to reconcile these conflicts, and to make society more stable. We shall talk about some of these stabilizing measures in a minute. But what many people today either do not realize, or do not want to realize, is that as long as our system is to grow in production and in living standards, it cannot give absolute security. Furthermore, and even more important, **neither socialism, or comprehensive planning could do so either.** In other words **any** system which grows and any system which tries to give the consumer to some extent **what** he wants **when** he wants it must have some insecurity.

The fundamental clue to the misunderstandings which are now in danger of wrecking our society lies in the recognition of one basic fact: **Growth comes through change,** and itself entails change. It is not by the endless repetition of existing techniques that output can be increased. It is not by simple expansion of things "as is" that the wants of the poor are to be met. Only by constant, repeated, and energetic use of **new** inventions will living standards rise. Social efficiency is not to be judged by the extent to which a society makes a tidy housekeeping job of its present techniques. The question is, how open will it be to **further** changes?

Yet here lies the basic conflict of modern society. For even if we had no new inventions, the mere expansion of output can be shown to entail constant changes in wants and in methods of production. There is no way of making **all** industries **equally** prosperous at the same time, without stopping change and expansion. Could we have kept the horse and buggy industry, and the new automobile industry equally prosperous? Can we keep the electric light industry and the kerosene lamp industry equally prosperous? Socialism, or general planning, does not avoid this job of shifting output around. It only changes the way we handle it.

But here lies the problem. For the constant reorganization and redirection of industry, which growth and the satisfaction of the consumer alike require under any system, cannot be carried through without **some** insecurity. Many people write as if the only insecurity to be afraid of were a matter of money. After first painting a Utopian picture of a socialism in which everyone gets equal money income, they proceed to argue that in that case no one would be insecure—for no one would ever have a reduction in salary. This is absurd. What of the desire for power and fame, what of the simple love of one's

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1947-48

Julien H. Collins

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E. Hopkinson, Jr.

1945-46

Charles S. Garland

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work? By the time a man gets to be 35 he is usually committed, not merely occupationally, but emotionally, to a given line of work—often to a given community. And it follows that when men are thus committed to regions and occupations, they are also committed to **a given pattern of resource use.** By unemployment benefits, old age insurance, the use of ordinary tact and consideration by management in introducing change, a great deal can be done to reduce conflict. But there will always be an unavoidable minimum of strife and insecurity, even under socialism. Many a man will be left stranded as a back number and no money salve is ever likely entirely to relieve his hurt.

Yet many trade unionists, and many left-wingers write as if "vested interests" were only a capitalist phenomenon. They seem to feel either that the mere introduction of socialism, or generalized planning, will make everybody unselfish; or else that it will abolish the instinct of workmanship. One change or the other would be necessary to give a conflict-free world. As long as people like to take pride in their work, they will tend to resent change. Veblen's "capitalistic sabotage" should be called security sabotage. For in any growing system some people will suffer from change, and those people are likely to try to prevent it. The best we can do, is so to educate the public that minority groups acting in an anti-social fashion will be persuaded to yield to the general welfare. Those UNESCO social "scientists" who wished to avoid conflict by giving every man a chance for "personal growth and development" have failed to realize that even on the highest plane of motives one man's development (for instance introducing new methods) may involve another's insecurity.

Growth then comes through change, and change involves an inevitable minimum of insecurity. But worse yet: If we are to try to anticipate the wants of consumers so as to give them what they want **when** they want it, we are inevitably involved in the possibility of recession or unemployment. For first of all, even under planning there may be mistakes; and secondly even if the planners make no mistakes, one cannot always expect the spontaneous pattern of consumer wants always to add up to full employment. Full employment, under any system, will come spontaneously only if the number and the importance of the industries which are expanding just about offset the number and the importance of the industries on the decline. We may **supplement** this private pattern of wants, but we cannot **force** it to conform, of itself, to a stable pattern.

There is, however, one further and tremendously important point which underlies the problem of social stability. This is the backlog problem. Let us take a very favorable case. Suppose the United States is governed by a politically omnipotent and economically omniscient planning board, possessed of every moral virtue. Assume that there is no failure of consumption to keep pace with consumers' goods output, that there are no monopolies, no pressure groups, no price lags, no hoarding, no need of foreign trade or foreign investment. But suppose further that such an economy is confronted with the same problem with which we have been confronted since the war: a large, newly released labor force, considerable deferred demand, a huge potential rise in the output of consumers' goods. Does not the way seem open, then, for peaceful and uninterrupted expansion? Unfortunately, one further question remains: How fast shall consumers' demand be satisfied?

It can be shown that even in such an ideal state it will be impossible to increase the output of consumers' goods rapidly without distorting the structure of industry, "overbuilding" the durable goods industries, and eventually entailing "waste" or unemployment. Take housing as an example. Suppose that the population is increasing fairly evenly. The chances would be that about the same number of additional houses would be needed every year. If we wanted a really stable housing industry, we should have to gear it to this steady demand, and fluctuations in either direction would be most undesirable. Say that the normal output for a given general situation, and distribution of wealth, would be 10,000 units per year. But now suppose that for four or five years—during, say, a war—no houses are built, and a "backlog" of accumulated demand piles up. In our example, this comes to about 50,000 houses. Can the planning board, using careful advance planning alone, satisfy this backlog promptly—and still stabilize the private industry? Unfortunately it cannot. The task is impossible—no matter what the form of government.

Suppose we decide to satisfy this housing d e m a n d right away. Thousands of young architects, foremen, and skilled workers are trained. A huge increase in plant is undertaken. The industry suddenly raises its capacity from 10,000 units a year to 50,000 thousand units. The "backlog" is satisfied. But then will come the tragedy: We shall not want 50,000 new houses every year. We only want 50,000 houses now. Once the "backlog" is satisfied, demand drops to the old level of 10,000, and about four-fifths of the men whom we have induced to go into the housing business are out of jobs. Yet there has been no "overproduction." Not one house "too many" has been built. It is simply that (from the point of view of stability) we have built them "too fast." The planners face an insoluble conflict between giving people what they want when they want it, and stabilizing the industry.

The full realization of this dilemma is tremendously important. For if we really follow through the left-wing criticisms of capitalism and of management, it will be found that they nearly always cancel out and conflict. For example if the steel industry, for the sake of future stability, acts like a socialist state trust and does **not** expand its output rapidly, then the cry is raised of "monopolist." But if on the other hand there is a rapid expansion (assuming expansion to be possible), and later on demand falls (as could also be the case under planning) then the very people who now most violently attack the industry for a failure to expand will be the first to blame it for unemployment. They will maintain that if only there had been comprehensive planning all would have been well. What they should say is rather that if only we had kept consumers waiting **even longer** all would have been well.

I have lately been able to force one of the outstanding theorists of socialism to admit that socialism or comprehensive planning could not in itself avoid excess capacity in the durable industries under the circumstances just outlined. However, he argues that this would not be "waste" in any economic sense. I would quite agree. But my reply would be that if it ought not to be called waste under socialism neither ought it to be called waste under capitalism. You cannot eat your cake and have it too.

III

So far, what I have said will not, I believe rouse much opposition among the more conservative members of my audience. Unfortunately, however, it is not enough to stop at this point. The problem I have outlined so far runs as follows: growth involves change and change involves personal insecurity. Furthermore rapid expansion to satisfy consumers' wants, where a backlog exists, will probably entail eventual "excess" capacity under any system. But on the other hand "planned" expansion is likely to be more stable only because involving more sabotage and a greater denial of consumers. The question is what to do?

There are two general lines of approach. The first is the policy of centralized advance planning of new investment. The second is the policy of "filling in," during slump, by special projects. We will begin with advance planning.

If one sticks to mathematical logic the conclusion is inescapable that the only way to be (more or less) **sure** that we will never be in any danger of a recession is to set up a sort of traffic cop for new investment. An investment planning board must be created through which all new projects must be cleared. Any business wishing to make a sizable addition to plant, or to introduce a new invention, or new product, would have to stand in line, or "queue up" until it got the green light from the Board. And the Board would not only permit—it would also direct—the location of industry and the allocation of materials and labor. This is the essence of Lord Beveridge's so-called "Full Employment in a Free Society."

Now it is not surprising that such a proposal should have the enthusiastic support of left-wing groups. What **is** surprising is to find some right-wing groups advocating substantially the same thing. The motives underlying such paradoxical behavior are not always of the highest. But frequently it is precisely those business groups and spokesmen for business who are usually regarded as the most "liberal" and "forward looking" who will be found advocating schemes of this sort. And it is to this group that I will address my discussion.

Lately there has grown up a sort of mystical belief, both among right and left wing critics, that business management **as such** has both the power and the obligation, **acting by itself,** to prevent depression. This view, in my opinion, is both mistaken and dangerous. In one version it is implied that if business will only hold down prices or put them down "in time" (whenever that is) it can avoid depression. I would be the first to admit, and indeed insist, upon the wisdom of self-restraint by business in raising prices. But if we want to increase or maintain output under present circumstances price increases are frequently inevitable. I am obliged to bypass price theory in this paper. But it can be shown that there would be quite good reasons, even under the "purest" of "pure" competition, why wage increases, or output increases, might have a more than proportional effect on profits. Leaving that aside, however, the point which concerns me is whether business really could avoid depression by cutting prices "in time." One practical question immediately leaps to mind: Who is to have the requisite clairvoyance to decide just when the right time has come? But let that pass. The underlying fallacy of the whole scheme is the assumption that public response to price reduction would always be such as to maintain full employment. While we cannot explore the matter in detail here, it can, I believe, quite easily be shown that no such ideal response could be relied upon, or indeed would be at all likely.

If, then, anticipatory price reduction or price restraint by business cannot, in itself, be relied upon always to avoid depression, the only other way in which business groups could take **direct** action against depression would be by "consultation" in N.I.R.A. style—or to call things by their right name — by forming cartels. In other words **private** planning.

There is, to be sure, a good deal which the individual firm can do to mitigate booms and slumps without g e t t i n g involved in N.I.R.A. agreements. It can postpone unnecessary durable goods expenditure and try to stagger its capital outlay. It can use good sense and moderation in inventory accumulation, and, as I have already said, in price increases. But these policies, though helpful, are not enough **entirely** to handle the problem. Inevitably we will find ourselves coming back to Lord Beveridge's traffic cop idea. Only this time the planning board will be a business group. And what, pray, is wrong with that?

Well, unfortunately, **there is a great deal wrong with it. The point of view which I have tried to put forward in my books is always liable to be misunderstood as lining up government, planning, and stagnation on one side against business, progress and development on the other.** No such simple classification is possible. I cannot in the long run see any reason why centralized, cartelized, **business planning would be much, if any, better than the same thing done by government.**

Once more the clue to understanding lies in remembering the basic principle: **Growth comes through change.** The trouble with setting up a centralized licensing and planning board for the allocation of resources and planning of investment, under any system, is that it creates a field-day for vested interests. Men and industries with independent and valuable new ideas will be discriminated against. The tendency of such a set-up will be to log-roll itself into industrial stagnation. The central planning board will become a circumlocution office, a board of obfuscation, or in less academic language, a general stumbling block. Let us not be misled by the short-run success of war-time planning. I would like to refer you to an extremely thoughtful little book "The Economic Problem in Peace and in War" by Professor Lionel Robbins. Strange though it may sound to say it, the war time problem is infinitely simpler than that of peace. Any economist could solve the employment problem if allowed to inaugurate general rationing. But to solve the problem of employment does not necessarily mean solving the problem of welfare. We could solve the employment problem—if jobs alone were all we wanted—by erecting statues of Adolf Hitler at every cross road.

Let me make myself clear. Everything that I have just said applies with equal force to the socialist state or to governmental planning. The clue to continued growth lies in such decentralization of power—whether the power be labor, government, or business—as to give the new man a chance and the new firm a break. Whatever the system we employ, social development can only continue if means are found for persuading those groups who are inconvenienced by change to yield to the public welfare. And the trouble with centralized planning — no matter who does it—is that it can easily become a convenient

social ritual for burying change, rather than advancing it.

IV

"But," you will say, "if centralized planning is ruled out, what are we to do?" The answer I believe lies in two things. First, so far as welfare and the growth of output are concerned, we should take steps to give the smaller men a chance. Second, so far as stabilization is our aim, major dependence must be on a policy of "filling in" rather than a policy of advance planning. This means that at times we must use deficit finance.

Senator Taft has remarked, and quite correctly, that what people are really afraid of today is not inflation but deflation. Yet, speaking as an impartial observer with virtually no personal politics, it seems to me that the outstanding thing which conservative groups in this country have so far been unwilling to do, is to give an adequate assurance concerning what policy **they** would follow in a slump. Unwillingness to accept the residual principle of compensatory finance seems to me to doom the extreme right wing to a species of intellectual castration.

I do not believe that deficit finance and public works are indiscriminate cure-alls which we should grab from the shelf at the first sign of trouble. Also I doubt if we shall have to rely upon them for recovery nearly to the extent that some people think. But I cannot escape the conclusion that the solution of the back-log problem, earlier outlined, which is consistent with democracy and with welfare is to say to the heavy industries: "Go ahead and expand, and if later on there comes a severe slump in your demand we will take over with government welfare projects." We cannot, it is true, guarantee the market for every industry; that would be merely another way of sabotaging change. But there are certain basic industries, for instance, steel, for whose products we can be quite sure there will be recurrent demand, and whose basic market we should therefore underwrite. Business and labor alike, seem to me far too prone to underestimate the future desire for their services. I have done so myself at times. I greatly doubt whether, in the light of home and world needs, the backlog problem for steel is as great as it is thought. But we cannot ask so unstable an industry to take such great risks, at artificially low prices, and with tremendous construction costs, without offering something in return. Thus I feel that the first step toward relative industrial stability will be taken when the right wing accepts the principle of placing a floor under demand.

There is another principle which the right wing also ought to accept. What is sauce for the goose, is sauce for the gander. If business complains about union sabotage and union resistance to change it has got to put its own house in order as well. The outstanding case of business sabotage is the tariff. It we are ever to erect a peaceful and a free world, I believe that America and American business must increasingly participate in the capital development of foreign nations. But if we have no intention of living up to our side of the bargain, if we intend to put up tariff barriers whenever the **foreigner** has a better idea, then all our efforts are foredoomed to frustration and to crisis.

So much for right-wing policies. What of the left? I have spoken of giving the new man and the new idea a chance. I purposely did not speak either of redistribution or of "pure competition," for it seems to me that the left-wing is hopelessly confused as to its aims on this point. Instead of giving little ones a chance to get big, it has concentrated its fire on making the big ones little. A jealous resentment of any expansion takes the place of a democratic stress upon opportunity. Let me give some examples.

In his debate with Professor Slichter in the July "Atlantic" Mr. Murray speaks of expansion from internal funds and the "ploughing back of profits" as creating monopoly. Nothing could be more misleading. I do not doubt that it is convenient for our large well-established corporations to expand from internal funds. But most of them could easily borrow from banks and float new issues. This to be sure would be more expensive. It would both reduce expansion (and hence retard living standards) and cut down the profits on which Mr. Murray has his eye, but for the most part it could be done. It is the middle-sized not-so-well-known business to whom expansion from private funds is vital. It is they who will suffer most from Mr. Murray's proposal. In other words labor jealousy of profit **helps monopoly** for it makes it harder for the new firm to get started.

Again the left-wing policy of high income taxes can be shown to back-fire in the direction of increasing monopoly. For the income tax, as I have elsewhere shown in detail, falls with disproportionate weight against the new man and the new enterprize.

Thus, to sum up, it seems to me that if we do have a depression in the near future we should not take it as a signal for renewed and more violent attacks on saving, for increased planning, whether from right or left, for further money wage increases, or for higher tariffs. If the depression shows signs of becoming severe we should bolster demand by public outlays **deficit financed**, but I believe that if this is done the crisis will prove relatively short-lived, and the business outlook quite soon, if anything, once more inflationary.

V

It is time for me to stop. I realize that I have left technical labor problems almost entirely to one side, but I have done this advisedly. Psychological techniques cannot do much if the whole system is regarded as a gyp. Mr. Toynbee, the historian, says that social progress is to be judged by the extent to which a society can function through persuasion. And sociologists agree that persuasion is impossible without a community of values. Let me outline then what I think management ought to say to labor:

"We both of us want higher living standards. Neither of us wants any more government control than we can help. We live in a time of renewed scarcity. If you press for continued money wage increases you will only add to the inflation. Even if prices in your own industry do not rise as a result of increases, your increased money spending will push up other prices—for instance those of food. By onslaughts on saving and on investment you still further delay the increased production which you want. Those readjustments of techniques and methods which you dislike will occur in any system trying to expand. Neither of us can wholly avoid the dangers of some depression which inhere in any free and rapidly growing society. But if one comes we promise to join with you in measures to stabilize demand."

If labor is so prejudiced that it can no longer accept such an argument then I do not really see much future for our civilization. But if Jefferson's faith in democracy and in the people is to be justified, labor and management can join together on this basis to bring about a rate of progress and achievement hitherto undreamed.

Herzfeld & Stern to Admit

Herzfeld & Stern, 30 Broad Street, New York City, members of the New York Stock Exchange, will admit Paul A. Cohen to partnership on Jan. 1. Mr. Cohen will acquire the Exchange membership of Max Reichenbach.

Jenks, Kirkland Partner

PHILADELPHIA, PA. — Jenks, Kirkland & Co., 1421 Chestnut Street, members of the New York and Philadelphia Stock Exchanges, will admit H. H. Beebe to partnership on Jan. 1.

Daniel Reeves Partner

BEVERLY HILLS, CALIF.—Daniel Reeves & Co., 271 South Beverly Drive, members of the New York Stock Exchange, will admit Raymond E. Stephens to partnership on Jan. 1. Mr. Stephens has been with the firm for some time.

John H. Lewis Admitting

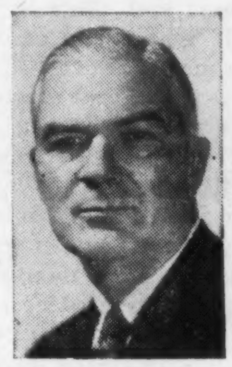
John H. Lewis & Co., 63 Wall Street, New York City, members of the New York Stock Exchange, will admit Henry L. Lowerre to partnership on Dec. 31.

Loeb, Rhoades to Admit

Carl M. Loeb, Rhoades & Co., 61 Broadway, New York City, members of the New York Stock Exchange, will admit Hubert R. A. Simon of London to partnership on Jan. 1.

IBA PAST PRESIDENTS

1943-44-45



John Clifford Folger

1942-43

Jay N. Whipple

1941-42

John S. Fleek

Outlook for Real Estate And Construction

(Continued from page 12)

flation this time and again foreclosures went up unusually high.

Many of you, I am sure, have read the book published last year by Dewey and Dakin, on cycles, and you remember in that book that Dewey and Dakin point out that these various cycles which are operating in different types of business in the United States, are sometimes going up at a particular time, one cycle will be going up while another cycle is going down, but, after a study of the various types of cycles that are operating in different business, they point out the fact that in their opinion, all of these cycles will be in their downswing in the period around 1952; they therefore assume that we are going to head into major economic trouble in the United States about that time.

Now, I don't follow that exactly. It seems to me that there is still enough resiliency in the picture to carry us much beyond that date. It seems to me that we couldn't expect the bottom of our next big depression before 1955, and, in my own thinking, I wouldn't be at all surprised to see it as late as 1957, but because all of the cycles in the past have averaged out at 1955, I am assuming that in the various forecasts that I am making today.

Now, if the only reason that I have for being pessimistic on the long pull were these recurring cycles, I would be a little bit afraid of my pessimism, but I have many other supporting reasons which to me seem more or less conclusive.

Long-Term Factors

I should like to talk for a minute about the long-term factors that are operating and how those long-term factors affect the safety of real estate mortgages. The first of these long-term factors I would call construction costs; that is, replacement costs. Regardless of whether we have inflation or deflation, in the last analysis this inflation or deflation gets over to real estate through changes in replacement cost. Over the long period as we have charted it, and we have charted it from 1850 to the present time, we find that the actual selling prices of typical pieces of real estate will vary more nearly as a line showing the percentage fluctuations of their replacement cost than any other factor. If that is the case, one of the reasons, of course, for the present inflation of real estate prices is the tremendous increase we have had in the cost of replacing existing buildings.

In our organization in St. Louis we now have seven buildings which we refigure every month. We try to take ever item of cost, and let me give you some examples of what has happened, and you will remember I always like to go back quite a distance and give you a little perspective on this particular building.

The building that I have charted here and that I want to talk about is an eight-room frame residence built on a particular lot, but in this particular series of figures I am giving the figures only on the replacement cost of the building.

In 1914, when the first World War started, to build this building cost $3,836. In 1920, to build the same building to the same specifications cost $7,678. In 1932, at the bottom of the biggest depression we ever had in the United States, to build the same building cost $4,480; and I should like to point out that at the bottom of the depression in 1932 it still cost 17% more to build this building than it cost in a fairly normal year of 1914, before the first World War started; in other words, a part of the inflation that accompanied the first World War became permanently imbedded in our economy and even that tremendous depression couldn't carry construction costs back to the point that they left.

When the second World War started in 1939, to build this building cost $5,894. To build that building one year ago cost $10,532, and to build that building this month cost $14,632.

Now, that is an increase of 39% against a year ago, an increase of 149% above pre-war 1939, an increase of 227% above 1932; 100% above 1920, the preceding high, and 282% above the first World War pre-war period.

In my opinion, if we go into a very severe depression in the middle fifties, construction costs will not drop back to the pre-second World War figure, the figure of 1939, and in all of our thinking we are assuming that a large part —and I mean a large part of the infation we have had in our economy, is a permanent change in our base. We think it entirely improbable that we are going to have too large a drop in construction costs, but in order to show you just what we think might happen there, let's turn for a minute to the chart that I have here called "Value and Market Value of our Standard Six-Room Frame House in St. Louis."

The chart starts in the year 1938. The bottom line on our chart is zero. The top line is $25,000. This line running along the bottom of our chart represents the selling price of an average 50-foot lot suitable for the type of building we have here. The black line we have here, the solid black line, starting in 1938, shows the replacement cost of building that building new, and you will notice in 1938 the replacement costs, including the value of the ground, ran about $6,700 to $6,800 — very little change over to the middle of 1939. Then the war started at this point and from there on out you will notice that we have had slight increases in construction costs over to this point. Then, at this point our line separated, and here we have our solid black line which now represents the legal price of building this building, assuming that you could buy your materials, at the OPA prices.

Now, we know that most buildings that were built during that period were built with black market lumber and many other black market materials, and so this broken dotted line here represents the probable black market cost of building this building during the same period.

The OPA went off at this point, and prices were decontrolled. Here is the way the cost of building this building, with the ground, has varied up to the present time, and at the present time the actual cost of building that building to the same specifications which in 1938 and 1939 cost about $6,700 to $6,800, today would be about $16,300.

Now, you will notice that from here on, I am guessing. I am trying to guess what may happen to construction costs in this period ahead. I am not guessing because I want to guess; it is always very difficult, it is always very hazardous. I am guessing what is going to happen to construction costs. You know, I think they are about at the peak. However, I don't show very much trend one way or the other until about the middle of next year, and then I start a slow decline, and this decline goes over in this fashion, and then assuming that we are going to be in another big real estate depression in the middle '50's, I show an accelerated decline in this period.

Now, should the actual drop in the cost of building this building follow my line exactly during the next eight or nine years, I can tell you quite frankly I am going to be more surprised than you will be, but to me, this looks like the general trend.

Let's look at this drop that I have here, and let's see whether that looks reasonable in view of the experience of the past. I am assuming that at the low point of the next depression the cost of building this house is still going to be 73% higher than it was in 1939 in fairly prosperous times.

Now, let's contrast that with what happened in 1932, and you will remember in 1932 at the bottom of that big depression, construction costs were only 17% higher than they were in that prewar period. Now, I am assuming they are going to be 73% higher. In other words, I very definitely believe that you are not going to go back to anything like your prewar price level.

Let's look at this figure from another angle. I am assuming that that is going to be the bottom of a big depression period, and I am still assuming that construction costs are going to be 129% higher than they were at the bottom of the last depression in 1932. I am also assuming that at the bottom of another big depression of this sort our construction cost will be 37% higher than it was at the top of the last real estate boom in 1925. That doesn't seem to me as an unsually pessimistic forecast. In fact, I think I could find reasons why I could make my forecast far more pessimistic than that. Let's look for a minute and see what did happen in this last similar period, the period that followed the First World War, and then let's contrast that with the present period.

Material Costs in War Periods

I have here a chart showing what has happened to building material prices in two war periods. I would like to direct your attention first to this broken black line which shows lumber prices from 1913, year by year, to 1923. You will notice a vertical line here on my chart, and this vertical line represents the end of the First World War, the Armistice in November 1918. You will notice about six months after the end of the war, lumber prices started going up in this fashion. They went up, and they reached this point in the spring of 1920, and that had been quite a rise. Relatively few people at that time expected any prices to drop, and particularly building prices. I could show you many articles written at that time in scientific and government publications giving reasons why prices would advance still further, and yet in the next 16 months the price of lumber dropped by 59%. It bounced in this fashion, went up like that, and then went over sidewise during the period of the '20's.

Now, in contrast with that First World War period, let's look at the period we have just come through, shown with red dark lines here on our chart. These red dark lines take the period from 1940 to the present. These charts are drawn in such a way that this vertical line that represented the end of the First World War also represents the end of the Second, and again you will notice about six months after the end of the Second World War the price of lumber started skyrocketing in that fashion. It reached a point here, had a false drop, went up again, another false drop, and at the present time it is right here. If it goes any higher, I am going to have to draw a new chart.

I think it is quite significant, however, that at the present time the prices on lower grades of lumber are cracking. Whether this will prove to be another false drop, only the future can tell but certainly we at least are relatively close to the top, and in my opinion when the top is reached, we are not going to stay there very long.

I don't think we are going to repeat this experience of 1920 and '21, that is, we are not going to have a drop of 59% in lumber prices in 16 months, but it wouldn't surprise me at all to see a drop of 33⅓%. In other words, I think that it is entirely possible that lumber may drop by one-third from its present heights, and as lumber drops, if it does, and when it does, I think the drop will also be noticed in many other lines of building materials.

It is largely by taking charts of this sort and trying to work out what seemed probable in the behavior of individual buildings materials and labor that we finally arrived at this drop that we show here.

There are a number of other long-range factors in addition to replacement costs. Another long-range factor, of course, would be interest rates, because the interest rate affects the value of all existing buildings. If interest rates are low, we capitalize with a low rate when we try to figure the value of existing properties. When interest rates are high, the story is just turned around, and that does have a tremendous effect on the values of investment properties. Also, we have gone through a period of very low interest rates which enabled a tremendous amount of business to go forward, which otherwise clearly couldn't have been done.

Low in Interest Rates Passed

I think I would be in agreement with practically all economists when I say that the low in interest

rates has been passed. I think the 4% rate on small loans is gone, it is gone for GI's, and unless the government makes direct loans, I think that it is absolutely essential if those loans are going to continue to be made, that the rate be increased to 4½%. Many loans that have been made at 4½% will be made at 5%; ones that have been made at 5% will be made at 5½%, but interest rates are going to creep up very, very slowly. You are not going to get a tremendous increase in interest rates at any time in the foreseeable future, largely because of the government policies.

Those are some of our long-range factors. Another one of them would be taxes, and we have been forecasting for a number of years that there was only one way that real estate taxes could go. Those of you who take our reports remember our charts, "Save the City," and you remember our forecasts that we were in for a period of sharply rising real estate taxes and that has started. All city governments and state governments need money. Their costs have gone up; they have to pay their school teachers, the firemen, the policemen, everybody has to be paid more, they have to pay more for what they buy.

The value of real estate has gone up in relationship to the old assessments, and clearly these governments needing money would naturally turn to increasing assessments more nearly in line with present values. Of course, in New York City, I realize that in many cases values are just starting to catch up with assessments, and, of course, that is true in many cities of the United States on the downtown properties, but it is not true on the small residential properties.

The only difficulty with taxes going up now as values increase is that they won't come down when values drop, and you are going to go through the same situation in the '50's, in the late '50's, probably, that you have gone through in the late '30's.

Short-Range Factors

Now, let's take some of our short-range factors. In the short period, let's put it this way: at any particular time the price for which any type of real estate will change hands will depend almost entirely on the relationship of the supply of that particular type of property in that community to the demand for it. It is self-evident, of course. But if we thoroughtly understand that we must realize that a part of the price for which at least residential property has been exchanging hands in the recent past, is a scarcity premium — the amount that the average person is willing to pay for shelter because he couldn't get shelter in any other way—that is a very real part of the price. It is an inescapable part of the price, but if we thoroughly understand that, let's also understand this, that the scarcity premium will only be paid so long as the scarcity continues. In other words, suppose that overnight we found ourselves with a surplus of housing, a vacancy, let's say, of 5%. Overnight the scarcity premium will disappear. It is a very volatile thing, present at certain times in your economy and disappearing at other times.

On this chart you will notice that I have a red line, and that red line attempts to show the selling prices of existing comparable housing in comparison with the cost of new buildings. You notice back here in 1938 and '39 that red line is below our black line. In other words, at that time we had a negative scarcity premium. At that time we had a high vacancy. The Federal census of 1940 showed 7% of all the urban dwelling units in the United States vacant and for rent at that time, and because we had more housing than the market was able to absorb, we had not a scarcity premium at that time, but what we call a surplus discount.

Then you will notice as we went into our war activity, our housing shortage developed, and in this period our red line goes above our black line and on a distress basis you could buy this building for $6,000 in 1938; a comparable building at the peak of our inflation went up to $18,000 in selling price, and if you doubt that, I can give you plenty of examples of actual buildings that have done it and I know you can, too from your own experience.

At one time that scarcity premium on this building ran about $3,000. Various studies we have made have indicated that that scarcity premium has been shrinking. It is our guess that it is going to disappear entirely by 1950, and, by the way, I think that the housing shortage as a real shortage is going to be over by 1950. That may be quite a surprise to a lot of people who have spent most of their time trying to find a place to live, and who have offered all sorts of premiums, but a housing shortage can melt away in a hurry if we get a change in economic conditions.

We Are Building at a Rapid Rate

Remember this: We have been building at a pretty rapid rate, but we are not going to build as fast in 1949 as we built in 1948. We are going to build fewer dwelling units than we built this year; in fact, at the present time we are already running considerably below the corresponding months of 1947. I don't know how big that drop is going to be. I think it may be, on the number of dwelling units, as great as 10%, although I rather doubt whether it will be quite that great. We are going to build a lot of "co-op" apartments in the United States in 1949. I think they are unwise. I think they would certainly be unsafe as mortgage investments, and the only reason we are going to build them is that the Federal government, through the FHA, is going to make credit ridiculously easy on that type of development.

I have been a great admirer of the FHA in the early period. I am starting to become a definite opponent of the FHA. I believe that the policies that the FHA is starting to follow are as unwise as a great deal of the very unwise financing of the guaranteed mortgage bond houses in the late twenties. The last part of that boom was financed with irrational money. Some of your big bond houses were continuing to sell bonds at par, and this has all come out, of course, in testimony before government committees—they were continuing to sell bonds at par after the buildings were already in default, paying the interest out of other funds and concealing the default.

It seems to me that to generate a tremendous volume of building with building costs at their present height in the United States, is running the risk of putting these buildings in competition, four or five years from now, with buildings built at a cost, possibly one-third less. If we build a building today and if we can build a duplicate of that building four or five years from now for one-third less than our present building is built, and if the thing is financed with a very, very slim equity, many of the owners of these buildings are going to find that they could build a new building for less than they owe on the old one.

I have often said if you want to know when foreclosures are going to rise rapidly, you don't have to subscribe to my reports. Whenever the average individual finds that he can buy a new building for less than he owes on the old one, you are going to have a very rapid rise in the foreclosure rate.

Foreclosures at the present time are dragging along the bottom of our chart. In the last three years they have averaged lower than they have ever averaged in any other period in the history of the United States as far back as our figures go. That doesn't mean we solve foreclosure problems; it merely means that in an inflationary period, when values are going up, when construction costs are going up, even 100% loans may become safe, and I have seen some 110% loans that have become safe in the recent past, but, on the other hand, reverse these factors —scarcity premium, which has been going up, may turn around, and you notice in my guess on the future here, I am guessing that that scarcity premium is going to become a surplus discount on this type of unit by the middle fifties.

So you are not only going to have the drop from your construction cost at this point to the construction cost at that point in its value, but in my opinion you are going to have the drop from the selling price here, which still includes a little scarcity premium, to a selling price here which will include a surplus discount.

Mortgage Testing

Now, my way of testing a mortgage to see what might happen would be to chart against this the amount still owed on the principal in any year in the past, and if my line gets gets very far below the amount still owed on the principal, it is my opinion you are going to have some difficulty with that general type of mortgage.

I know most of us at the present time are hesitating between two general ideas. On the one hand, we are very much afraid of further inflation. On the other hand, we see many indications that deflation is actually setting in. One reason that I gave the person in my introductory remarks a bigger percentage at the present time is because it is almost impossible now to tell which way the balance will swing in 1949. It is my opinion that you can't postpone deflation very much longer, but I think that we might be able to use the hypodermic once again and for a while I think we might get some inflationary effects and stave off some of the deflationary effects that many of us have been dreading.

My contacts with large organizations in the United States, however, in addition to our own figurges, are swinging me toward the deflationary side. Just the other day I talked for a long time over long distance telephone with the economist of one of the three largest corporations in the United States. This man told me that the various studies that they have been making — and they have a very large economic department — have convinced them that for the first time since 1933, in their opinion, the deflationary factors balance the inflationary factors.

In the past, regardless of what happened, we always had that inflationary balance to carry us through, and it did, but now if they are right—and I am rather inclined to think they are—if we are sailing on pretty much of an even keel, any change in economic conditions, something that in the past might not have affected us at all, might start one of these downward spirals. That organization is quite worried about the outlook.

Now, I make this statement that I think the deflationary factors are starting to get into the ascendency in full realization of the fact that practically every policy that President Truman announced in his election speeches would be inflationary in character, and that every one of the inflation controls that he announced, with possibly one exception, were attempts to treat symptoms rather than causes. On the other hand, the one exception, I think, is higher taxes. I think we are going to go into higher federal budgets, but I think that you are going to see the increase in the federal budget fi-

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IBA PAST PRESIDENTS

1939-40-41

E. F. Connely

1937-38

F. E. Frothingham

1936-37

Edward B. Hall

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nanced at least to a very large extent by higher taxes on corporations and individuals. I rather doubt if 1949 is going to see an excess profits tax, but I do think that it will see a very much, well, let's say a 10% increase in the higher bracket incomes, and an increase in your regular corporation tax. That will be deflationary.

I think on balance these various factors have a bigger chance, let's say after the first six months of 1949, of showing a downward drift than they have had any time in the past few years.

Now, let's see if I can summarize some of these things that I have been saying. I am still optimistic on office buildings. If I owned an office building, almost any place in the United States, I would continue to own it. I believe that the great increase that we have gotten in construction costs is going to make it impossible to build a new office building in competition with buildings at the rates per square foot they are now getting. In other words, one of two things would have to happen: either construction costs would have to drop by a bigger percentage than I think they are going to drop, or else the square foot rentals on existing space will have ot increase.

We have been plotting the average rentals of all office buildings in the United States quarterly since 1925. We have always been plotting the vacancies in office buildings, and vacancy, as you know, in the last two quarters has increased by a very, very small amount, but the increase in vacancy is far less than the decrease in federal occupancy. In other words, some of the war bureaus have been going out of business, and as they have, they have made space available, and private industry has been absorbing that space almost as fast—not quite, but almost as fast—as the government has been releasing it, and so there has been a very small increase in office building vacancy.

The office building situation to us, though, still looks in good shape, and with values going higher than they are right now—not much higher, but some higher.

I think big apartment buildings are going to be faced with the competition of a lot of very unwise building of "co-ops" and of other government-insured apartment units. I think in the lower price groups they are going to be faced with the competition of subsidized housing. Just as I left St. Louis, I noticed a headline in the St. Louis paper that the tenants of the St. Louis subsidized dwelling unit projects had gotten together and had formed an organization to prevent evictions, or to do their best to prevent evictions of persons whose income had gotten above the limits allowed by law. I think you are going to see a great deal of attempted political pressure to raise that limit to get subsidized housing, if you give the tenants sort of a right to what they have got. I think that is more or less of a tendency. We know we are going to have a continuation, and a very exaggerated continuation, during the next four years now of our subsidized building projects.

If I owned a farm today, I wouldn't sell it if I were a good farmer and operating that farm myself. If I weren't a good farmer, if I held that farm purely as an investment, I would sell it. If I owned a good downtown business location, let's say a 100% location, I would sell it on today's market, provided I was trying to get the largest price I could get. If, on the other hand, the principal thing I wanted was a steady income, possibly a little smaller than my present income but a steady, safe income over a period of years, I would continue to hold it. In my opinion, department store sales and retail sales generally in 1948 hit an all-time peak. They are running below that now. They are running below a year ago. I think in 1949 they will run below 1948, and since all values on retail properties in the last analysis depend almost entirely on the volume of business that can be done in a location, if the dollar volume of business drops in the various retail locations, their dollar values will also drop.

Kilowatt Crisis

(Continued from page 7)

an excellent water year. The shortage is due to a lack of generating capacity. Some of the contributing causes to the shortage could probably not have been removed by anyone. These include such factors as the big increase in population in the region, the tremendous load growth in this area since the war's end, the inability to obtain generating equipment during the war, and the difficulty of obtaining new equipment during the post war years.

On the other hand, under long-term contracts entered into by the Bonneville Administration with large industrial users, principally aluminum, about 50% of the total presently available Federal power generation is going to a handful of customers.

I might add here that the private utilities have been unable to contract for any prime power from Bonneville on a long-term basis. As a matter of fact the punitive way the private utilities have been treated by government is an absolute disgrace in a country that is presumed to provide equality of opportunity.

Calls for a Policy of Cooperation

It is my belief that if the policy of the Federal Government had been one of cooperation with the private utilities, the power supply situation would not be as critical as it is today. The benefits of multipe purpose developments can be made available to the people without using these Federal projects as instruments of social reform. The customers of the private utilities should not be discriminated against.

It seems like the government jumped head over heels into the power field in this region without knowing just where it was going or the extent of the responsibility it was assuming. The people of this region were promised the blessings of abundance. Today they are called upon to endure the hardships of scarcity. Perhaps this sort of thing is to be expected from government as it functions today, but it is not very comforting when the economic future of this area is at stake.

The planning and installation of new generating capacity in the Pacific Northwest has been subjected to much confusion, controversy and delay, and the project schedules are shuffled around like a deck of cards.

Now as to what is basic in the government's failure to provide an adequate power supply, you have, of course, numerous agencies and bureaus and Congress and the President all with a finger in the pie and you have lots of hocus-pocus and politics involving among other things party, sectional and ideological differences, budget battles, changing policies as to "pump priming," "deflationary pressures" and, of course, "log rolling" and "yards and yards of red tape." In short, electric power, instead of being handled as a business proposition, has become a political football. Frankly, this whole power situation is the greatest "merry-go-round" you ever saw.

The plain facts are these: The usual administrative and legislative processes of government are too cumbersome and too much of a "ring around the rosie" affair to handle satisfactorily the government's extensive business operations in the power field. There does not exist a clear-cut Federal power policy nor a proper streamlined legislative and administrative procedure for the business-like handling of multi-purpose projects.

No Over-All Program

The various Federal agencies have prepared all sorts of long-range multi-billion dollar plants, but as far as I know, there has not yet been developed a truly comprehensive and integrated over-all program. There exists much conflict of interest between power production, flood control, irrigation, fish and wild life conservation and other purposes.

Under the present procedure various departments of the executive branch of the government, such as the Department of the Interior and the Army Corps of Engineers, have the responsibility to initiate river development programs, but the final decision as to authorizations and appropriations is the responsibility of the Congress and of the President. Congressional appropriations are made for a single year or at the most two years ahead. Even if a coordinated long-term program is developed and authorized its continuity over the years is dependent upon continuing year to year or biennial approval by the Congress. **Thus, there is no real assurance under the present set-up that any given program will be carried out over the long-term period required for the construction of multiple purpose projects.**

Because the Federal Government has gone so far in the matter of power development in the Pacific Northwest, which it has tied in with irrigation, flood control and other purposes, and as the amounts of money involved for future development are tremendous, running into the billions, problems of great magnitude would be encountered if the various states affected, were to assume the obligations of the Federal Government in the matter of assuring the region of an adequate power supply.

How to Alleviate Present Power Shortage

Now, as to what can be done to alleviate the present power shortage and to help assure an adequate future power supply, I make the following observations:

First: During the peak hours from 4:30 to 6:30 p.m. this Winter all classes of customers can help avoid drastic curtailment measures by restricting the use of electricity to a minimum during such hours.

Second: It is imperative that the Federal Government proceed as rapidly as possible with the construction of such storage projects above Grand Coulee as will firm up the additional capacity to be installed at Coulee in the next few years. There should also be an immediate acceleration of work on such authorized projects, as will most quickly reduce the shortage menace.

An important contributing factor to the increasing power deficiency in the years 1949 to 1952 is that the one million kilowatts of additional capacity scheduled to be installed at Grand Coulee between now and 1952 for the most part represents peaking capacity only and any substantial amount of increased firm power, that is, power which will be available on a year-round basis, cannot

be obtained at Coulee until additional upstream storage dams are built.

Third: There should be created a framework of Federal government policy, procedure and administration with a maximum of Home Rule, which will seek to assure the Pacific Northwest of an adequate power supply. There must be prepared at the earliest possible moment a long range regional program or blueprint which all interested parties will agree to and which will provide for the most economic development of the region's water resources. Some changes will be required in procedures and methods as to legislation, administration and financing in order to put power development on a firm schedule. Some machinery must be established whereby the people of the region have a definite say so in the preparation and carrying out of such a program. The Federal Government should not be left with a life or death grip on the economy of this region.

These are basic requirements not only because of the crucial importance of adequate electric power to the life of the people in the Pacific Northwest, but also in view of the major role that this region plays in our national economic life. Adequate electric power should be provided as a part of the nation's mobilization program and in the interests of national security.

Seattle Situation

Now not only do we have a regional power shortage but to make matters worse a very menacing situation currently exists in the electric distribution field in Seattle.

Briefly, the facts are these: In 1943 the City Council passed a resolution declaring the company out of business in 1952 when its franchise expires. If Seattle were not growing and if our electric load were not increasing, no new capital would be needed annually for enlarged facilities and there would be no immediate crisis. However, the electrical requirements of our customers in Seattle are increasing substantially year by year. New capital is, therefore, needed annually for increasing the capacity of existing substations, underground transformer vaults, feeder lines and the like throughout the company's distribution system, because the increase in load is just about everywhere and our facilities are carrying heavy loads at the present time. Unless this work is done, serious interruptions to service are bound to occur involving substantial economic loss to thousands of customers.

Because of the death sentence imposed upon it by the City, new capital is not available to Puget for the expansion of its distribution facilities in Seattle. With money as tight and risk capital as scarce as it is today, it stands to reason that investors are not going to put millions of dollars into a situation where there is no assurance of getting their money back.

A growing electric utility must make plans and commitments years ahead especially under existing conditions when needed equipment and material can only be obtained on long-term deliveries. This cannot be done when you are under a death sentence.

While the existing situation is an intolerable and impossible one from Puget's standpoint, it should also be an extremely difficult one for the City. In the present state of uncertainty, it is not clear to me how City Light can intelligently and economically plan a future program which will assure the people of adequate distribution service at the lowest cost. The City cannot take care of the present demands of Puget's customers from its existing system.

Any way you look at it, a continuance of the building of duplicate facilities at present day soaring prices for labor and materials, and with increasing money costs, would be the height of folly. It would cause an appalling waste of critical materials now in short supply; it would mean that the customers paid through the nose because of higher electric rates than would otherwise be the case; and it would put the City at a disadvantage from the standpoint of future industrial development. Substantial savings could be effected by a merger of the two systems.

It boils down then to a case of either the City or the Company acquiring the facilities of the other. Naturally, Puget does not want to go out of business. It would like to take over City Light, but it appears that this would be even more difficult than putting a Republican in the White House. Practically speaking, any element of choice as to the City's buying or the Company's selling has been eliminated. It follows that the only way that a serious crisis in the Seattle distribution field can be averted and the people assured of adequate distribution facilities is for the City to acquire the Company's property at a fair price. This is a matter which requires a settlement not next year, not in 1952, but right now.

This is not because Puget wants it, but because the public interest demands it. We do not want our customers to wake up some morning and find that distribution facilities are grossly inadequate to take care of their electrical requirements.

I am sorry that the atmosphere of my discussion today, electrically speaking, has been full of static, blown fuses and short circuits but let me emphasize that I did not create the atmosphere. This was done by the people, who over a period of years, have been demanding that government do more and more things for them, and private power has been victimized by this trend. Its operations "have been trimmed" and its "lights dimmed."

It is really tragic and painful for me to have to tell you:

That a critical power shortage exists in a region which has the greatest potential hydroelectric power in the United States;

That government has forced private enterprise out of the power production field in this region as far as future developments are concerned;

That government has assumed the responsibility as the major supplier of power in this areas, but there presently exists no means of assurance that a power supply adequate to meet the needs of the region will be provided;

That the City has said that Puget is through doing business in Seattle, and because of this action there is no assurance at present that adequate distribution facilities will be provided in the City.

Certainly, gentlemen, this all adds up to a real "kilowatt crisis." This is NOT something that people can be apathetic or complacent about. This community and this region needs to be thoroughly aroused as to the crucial nature of the situation and to take vigorous action so that out of this "dark hour of crisis" somehow will come a "bright future." It is obvious that the Pacific Northwest cannot achieve its proper destiny with the red lights of a power shortage holding up its progress.

As I see it the biggest task confronting the Pacific Northwest today is that of assuring this region of an adequate power supply without regimenting our people and our economy, I say to you, that this is a tremendously grave and complex problem, and that the highest order of statesmanship and the greatest degree of unity, both at the national and local levels is necessary if the right and proper solution is to be obtained.

I regret that my role here has been pretty much that of a "Scrooge," but as you Rotarians know the only one who can really play Santa Claus in these times is Uncle Sam. Thanks a lot for the privilege of being with you.

IBA PAST PRESIDENTS

1935-36 1934 1931-32

Orrin G. Wood George W. Bovenizer Allan M. Pope

IBA President Scores Attacks on Wall Street

(Continued from page 17)

this, but how many are actively doing anything about it?

The investment banker's role in this undertaking is especially important. A noted economist said to me the other day—"You have let the life insurance salesmen and other representatives of trusteed savings preempt your position with the individual investor."

It's true that the investment banking machinery still handles a large portion of this business, but it comes to us second hand, and in a way that slows down the dynamic qualities which are needed to keep a free economy in health.

Our failings in all of these matters I have been discussing are not peculiarly the investment bankers'. They are shared by all of the American people. For instance, the European Recovery Program was not sold to the nation as a constructive undertaking. It was sold as a defense measure. Perhaps this is the technique that those of us who are alarmed should use on the other members of our industry. For if something is not done about these problems before they become much more acute, then we are squarely up against the alternative, and I think you know that the investment banker doesn't cut a very important figure in a collective society.

I don't want to sound like a prophet of doom. I don't intend any prophecy at all because my hopes rise up against this. But I feel very strongly that the complacency of this industry about its more basic problems is highly dangerous. It is the sort of complacency that may precede great social changes. It is the sort of complacency that may even deserve great social changes.

So there is a real challenge here for all of us. The men in this group have a fine background of integrity, education and individual accomplishment. I have been proud of being an investment banker. I believe that we have the capacity for leadership that is needed to set the clock back to free enterprise time. I hope we will accept the challenge.

* * *

There are three topics that I wish to discuss briefly. The first is an old pet of mine—the need for an objective analysis of our business. The second concerns the negative attitude with which many of our problems are faced. The third is the more specific question of venture capital which you have heard a great deal about lately but which in my opinion you can't hear too much about until more is done.

Problems that affect the whole economy are not solved from a subjective viewpoint and they are not solved from a defensive position. Yet that is where we start—and end—in most cases. Take for example our public relations. While we are making a new start and under Joe Johnson's able direction will make the most of the tools with which we have to work, we can hardly classify our results to date as successful. In part, I think this is because we have lacked the support of an objective analysis of our place in the national economy and how we can best fill it.

I am very confident of the outcome of such an analysis. As a part of my business credo, I firmly believe that, short of education, there is no stronger tool of democracy in an industrial society than the ownership of wealth in the form of securities. The mechanism for encouraging and transferring savings into productive enterprise and the keeping alive of a liquid and competitive market is essential in preserving and strengthening our democratic institution. This is our business as we see it, and what I say is to us a simple truth. But, through demagoguery and the like, the public has a different idea—or no idea at all.

We will never receive proper (if you please) recognition of our place in the national economy until we can do more than allege its importance. Other industries have been very articulate in telling their story based on objectively secured facts and their public relations show the result. To me there is a logical sequence in:

First: Getting the basic and objective research done.

Second: Going on the offensive with a public relations program that will,

Third: Smooth the way for the solution of the problems that arise.

I have spoken about this in quite general terms, and I know that some of you might challenge my statement about our lack of basic knowledge and our need for a research program. Time doesn't permit going into details, but I shall welcome the opportunity of discussing it further with you on any other occasion. Before this discussion, I urge you to familiarize yourself with the activities of the National Bureau of Economic Research in this field. In 1946, they published this pamphlet outlining a suggested study of the securities markets. It had its roots in some very defensive experiences we had in the NASD when I was Chairman, and since that time, I have seen a boringly vigorous advocate of our industry doing something comprehensive and constructive along this line.

I know that many of you also distrust the ivory tower approach, but work like this has to be done by economists and professionals in scientific research if we are to get the advantages of an objective treatment. Each problem has to be posed and the solution tested in the light of the public interest. Surveys of this sort have been successfully done for other industries and many governmental activities, and in my opinion, our own need here is great.

I am very budget conscious and just what part the IBA, as such, can play is yet to be determined. Actually I believe we can get this research done without direct cost to us. We need, however, a more widespread interest in the project from every corner of the securities business. I have asked Yost Fulton who very much sparkplugged the NASD Committee to take charge of a committee of this Association also and make a report and recommendations to the membership as to the part we can play. He will be aided by John Fennelly and others who have had experience with the problem and I urge you to give earnest attention to what they say.

There is a corollary advantage in such research in that it will develop and bring to us in an unprejudiced fashion such weaknesses as our present system may possess. I feel sure for example that it will reveal to us how often we approach our direct problems in a negative fashion.

A Revision of the SEC Laws Needed

(Continued from page 8)

was illegal to approach a customer on the subject. In recent years there has been some more or less unofficial waiving of this regulation, particularly as it may apply to approaching institutions, but it is significant to note that lawyers still advise extreme caution in that regard. The securities business is about the only enterprise in the Country where a paternalistic government attempts to protect its citizens from themselves; from the honest efforts of other citizens to sell them something, or from the spending of their money for something which they may otherwise wish to purchase.

With the exception of the securities business practically all other types of purchases and sales are left to the traditional ability of the United States citizen to decide. But on investments he must be guided by a government bureau. Now it is true that whiskey, medicines and food are subject to pure food and drug or possibly prohibition laws in many sections of the country, but the sellers merely have to comply with the sensible regulations which are based on the protection of the health of the public. They do not have to file a prospectus for each batch of whiskey or carload of hogs, nor do they have to tell a customer how much it cost them.

PART II

Public Bidding

Public bidding originated with the issuance of municipal bonds. The practice was adopted as a corollary to the placing of construction contracts by municipalities. Due to the abuses in the award of paving, sewer, courthouse and other similar contracts a demand arose that such work be given to the highest bidder instead of to a contractor with political connections. Theoretically the specifications for the job were advertised. Engineers and contractors were given an opportunity to study the plans and were asked to submit bids on a certain date. Awards were supposed to be made to the highest bidder, provided he could prove financial responsibility. Actually all this frequently did not take place. Specifications were frequently drawn in such a manner that a certain contractor had a considerable advantage. However the system was a decided improvement over old methods and it was gradually adopted in connection with the issue of municipal bonds.

In recent years the government has demanded that utility securities be sold at public bidding and more recently the same practice has been adopted for the sale of railroad bonds. Long established banking connections had to be scrapped. Moreover institutional customers whose good will had been cultivated over many years of effort have in many cases become public accounts. The large institutions have been obliged to forsake many of their old contacts with investment bankers because they found themselves unable to obtain blocks of choice securities unless their friends happened to be in the successful bidding group.

Public bidding on securities has certain disadvantages. It has often happened that corporations have been defeated in their efforts to properly time security offerings. Banking concerns who in the past had frequently come to the assistance of corporations when financing was badly needed are now loath to work up a deal, only to lose the issue due to a rival bid at a slightly higher price. Nowadays the only recourse open to such a corporation is to try to negotiate a deal privately with an insurance company. Moreover, in some cases outside banking interests have bid too high for new issues and the issuer has suffered later on due to a poor secondary market for his securities. Nowadays a banking concern scarcely knows its position with regard to its own customers, particularly among the larger institutions. If they bid a fair price and the next bid happens to be much lower, then institutional buyers are apt to look at the spread and decline to buy. On the other hand institutional buyers, being fully aware of the cost of the issue to the bankers, are apt to decide that if they hold off then the winning bidder may be forced to cut his profit even down to a loss before they are willing to purchase the securities.

Public bidding also has certain disadvantages from the point of view of the institutional buyer. In order to fill his requirements he is often obliged to deal with bankers unknown to him, concerns who never rendered him any service, gave any valuable information or even took the trouble to send a representative to call on the institution. Such buyers, unless they specify certain members of a group, are apt to find themselves dealing with as many as 90 different banking firms on one issue. They may receive 90 copies of the Prospectus, 90 statements and have to make out 90 checks. If they do specify certain houses their own business is apt to suffer as they may endanger the good will of possible insurance customers. This is particularly true of institutions in the fire and casualty business.

Work of Underwriters Undone

Some underwriters have gone to considerable time and expense to lay the ground work for a new issue only to find that they turned out to be the unsuccessful bidder and their efforts were largely wasted. There have been instances where banking firms have made advance contacts and made preparations for bidding on as many as five separate issues in one day and lost them all. The expense of all this is apt to be quite large and nowadays often not compensated for by the results. The margin of profit is apt to be so small as to appear almost ridicul-

ous. In the real estate business for example, standard margins of profit are usually established in the trade. The commission for placing a mortgage loan is regularly stated in many States and averages about 1%. Most public bidding underwritings are done today for an average gross profit of about 0.5% ($5 per $1,000) on bond issues and a great deal of selling group business is done for ⅛th. Why should an investment dealer be expected to make only $1.25 before tax for raising $1,000 for a corporation?

In this connection it may be interesting to discuss the time of day at which bids are scheduled to be opened. It has been a general custom to open bids at 12:00 noon. Many persons in the security business do not realize how this all came about and perhaps it would be well to state just how this practice originated.

When public bidding on municipal bonds first started the following procedure was adopted. The first step was to have the electorate regularly vote on the proposal to issue the bonds for some specific purpose. After that the bonds were engraved and made ready for immediate delivery. Next the issue was advertised for public bidding on a certain date. At noon on that day the bankers would assemble on the steps outside the City Hall with their certified checks ready to cover the full amount of their proposed bid. When the mayor and his close associates came out of the building on their way to lunch, that official would carry the bundle of bonds under his arm. Before descending the steps he would announce that the sale of the bonds was now to take place. Each banker would then publicly state what amount he was prepared to bid for the bonds. The mayor would take the highest check, after which he would hand the whole bond issue to the successful bidder.

Public Bidding Antiquated

The above procedure is nowdays about as antiquated as a leather dash board would be on a 1949 automobile and the expense of doing the business at noon is often about double what it should be. Business men in the East and Middle West are apt to be out at luncheon most any time between 12 and 2 o'clock. This not only makes it difficult to catch the buyer in his office between these hours but also makes it hard to get investment committees together. Duplication of telephone calls, undelivered messages, overburdening of long distance lines and other exasperating delays are frequent. Sometimes as many as three issues are up for bidding at approximately the same time, all of which adds to the confusion. Some institutions are so swamped with telephone calls that every available trunk line and member of the buying department is enlisted to handle the rush. Sometimes the deluge of sales effort is so severe that all calls have to be temporarily refused and in the interim an entirely unexpected and choice offering of outstanding securities is apt to be missed.

It would seem that if bids were opened at 10:00 a.m. or 2:00 p.m. it would help to remove some of the objections to the present practice. The really ideal time would seem to be at 8:30 p.m. At that time all stock exchanges and business firms are closed throughout the United States. Most bankers and corporation executives could more conveniently attend auctions of securities at that time as they could leave their places of business, have dinner and then be ready for the meeting at which the bids would be opened. Moreover there would be plenty of time to consider bids, terms and offering prices, send out wires and have everything in shape for the sale the next morning; and no buyers would have any special advantage over others in placing orders for the new securities.

PART III

Directed Business, Prospectus, Office Memos, Remedies

More or less recently a new method of placing orders for securities has gradually become adopted by a number of banks and trust companies. This innovation is generally referred to as "directed business." The practice has developed in connection with the struggle to get deposits, loans and trust accounts. Years ago banks used to buy most of their securities from men whom they recognized as experts, men of long experience and wide knowledge of mortgage indentures, traffic density and earnings ratios. If a salesman had a block of bonds and actually understood and could explain all of the figures, provisions, advantages and disadvantages of the security, there was an excellent chance that his knowledge, experience and ability would be rewarded with an order. Moreover it was quite usual for a salesman to call on a bank or institution with complete information on a certain bond, although he actually had none of them on hand for sale. Being convinced of the desirability of the purchase, the buyer would suggest that the salesman's firm quietly accumulate, for example, a half million of the bonds and when the block was assembled to offer them to the customer. Such verbal indications of an order were rarely abrogated. Nowdays, however, another factor enters the picture. The salesman is apt to discover, after furnishing all the necessary knowledge and figures on an investment that the resulting order has been directed to some other broker who has a loan, deposit or has his name on the dossier of the trust account for which the investment is intended. That broker undoubtedly receives a pleasant surprise but it is doubtful if he is actually entitled to that particular piece of business. This policy of directing business may seem beneficial to the bank because it believes that salesmen will send them trust accounts of customers and rely on the recipient to give them first chance at all future orders. Actually it does not always work that way in the long run, because investment men of broad experience will be hesitant to impart their knowledge of a choice situation to some buyer where these is reason to believe that they probably would not receive the order anyhow. Regardless of their desire to get in new accounts, banks may eventually find that the old fashioned policy of cooperating with investment salesmen is the best. These men, through contacts with their customers, experience and personal ability not only are apt to know of some highly desirable investment situations but in many cases are able to point out serious objections to an investment which would save the buyer from making what might turn out to have been a serious mistake.

In these days when an underwriting firm prepares to put out a new issue of securities, naturally every effort is made to frame the prospectus so as to give as much favorable information as possible. At the same time the law requires that any unfavorable factors known to the underwriters must be clearly stated. Lawyers assist in preparing the papers and attempt to protect the underwriter and the issuer from making any mistakes. Also they try to protect against any future law suits in the event that the investment should result in a loss to a customer. Consequently many facts and figures are left out of the prospectus unless they would withstand a law suit. Future prospects and *pro forma* calculations of earnings are shunned and favorable data on the position of competitors is usually not included. Only the unfavorable competitive conditions are apt to be mentioned.

The Office Memorandum

In order to furnish favorable information not to be found in the prospectus the device of issuing an "Office Memorandum" has developed. This paper is apt to contain valuable information on trade relations, competition, comparisons with other similar investments, *pro forma* figures on balance sheets, income accounts and estimates of future operations. The paper is clearly marked that it is for office use only and under no circumstances is it to be mailed or even shown to anyone outside the underwriters immediate employees. Now it says, very clearly, at the start of each prospectus that no one is to furnish a customer with any information whatsoever except that which is to be found in the prospectus. Consequently it is tacitly admitted that any data in the office memorandum, but not in the prospectus, must not be passed along to cus-

(Continued on page 56)

IBA PAST PRESIDENTS

1930-31

Henry T. Ferriss

1929-30

Trowbridge Callaway

1927-28

Henry R. Hayes

A Revision of the SEC Laws Needed

(Continued from page 55)

tomers. Nevertheless these papers actually are apt to be widely circulated.

Now at this point it should be made clear that there could be no valid reason for objecting to the preparation of an office memorandum. The trouble is that it actually is unlawful under present regulations. Such papers are very useful and often contain valuable information, but they really are forbidden. An underwriting firm may have been actively conducting a high-grade business for many years and have an excellent reputation for honesty and fair business dealing, but the law does not take any of that into account. It does not give the underwriter the same leeway as is commonly taken by manufacturers, department stores, insurance concerns or almost any other type of enterprise that has been the backbone of building up American business to its supreme status in the world of today. Consequently, it is apparent that there is need for a change in this regard.

Review of Laws Needed

There is need for a complete revision of the law relating to the issue, purchase and sale of securities. The whole Securities Act of 1933 and also the Securities Exchange Act of 1934 should be reviewed. There has never been a real drastic decline in securities or a truly severe depression since the creation of the SEC. Consequently its usefulness as a means of preventing losses to investors from these causes has never been tested. Certainly it has not been particularly successful in preventing the issue of securities which later declined drastically in price on the open market. All restrictions on the raising of capital for corporations of unquestionable standing should be so modified as to present a minimum of interference with their right to solicit funds for their needs. There has gradually developed entirely too much bureaucratic control over the business of United States citizens and the time is at hand when a halt should be called on the expanding powers of government agencies in this regard.

In order to make a start and provide a basis for discussion of changes in the Securities Acts the following procedure is suggested for consideration by members of the investment profession, bankers, members of Congress and all those interested.

It is suggested that a commission would be appointed by the President of the United States to frame proposals for changes in the Securities Acts. Qualifications for appointment to this commission should preclude the inclusion of any but the most experienced men in the investment field. This would prevent the appointment of politicians, college professors and others not thoroughly qualified by years of active investment training. An excellent commission would seem to include the investment officers from three large insurance concerns and three large trust companies, also three senior officers of leading investment concerns. The duties of the commission should include the study and recommendation of a series of qualifications for new issues of securities which, if met, would exempt a corporation from the obligation of registering with some government agency and being subjected to the expense and delays now required under present laws. Supervision of security trading should be returned to the executives of the various stock exchanges where experience and care could be used to prevent abuses to the orderly conduct of the business of trading in securities. It is not regarded as necessary that the police search the home of every citizen so that they may be prepared to apprehend the occasional criminal. Neither is it necessary to examine, interfere with and delay the orderly operations of the investment business in order to sometimes discover some possible irregularity in the conduct of so vital a part of our economy.

CURTIS TER KUILE.

Dec. 22, 1948,
New York City, N. Y.

Over-the-Counter Securities Now Cleared Through N. Y. Stock Exchange

Central delivery system, established Nov. 1 by New York Stock Clearing Corporation, reported successful, saving participating over-the-counter dealers considerable expense, in addition to convenience

New York securities dealers, members of the National Association of Securities Dealers, are now making deliveries of over-the-counter securities through the central delivery system of the New York Stock Clearing Corporation, connected with the New York Stock Exchange, it is announced by George E. Rieber, Secretary of District No. 13 of the National Association of Securities Dealers, Inc. The making of the central delivery system available to over-the-counter dealers in the New York area resulted from conferences between the New York Stock Clearing Corporation, the business procedure committee of the Cashiers Section, Association of Stock Exchange Firms, and the Secretary of the Uniform Practice Committee of District No. 13 (New York and New Jersey) of the National Association of Securities Dealers.

Central delivery started with nine over-the-counter dealers and clearing agents for over-the-counter houses participating, but actually the number of firms benefiting from this plan is much greater. One of the clearing agents clears for over 60 dealers. Other clearance agents participate on behalf of their clients and it is possible for over-the-counter dealers who participate in the plan to make Central Delivery to 182 firms which were already members of the New York Clearing Corporation, and to receive deliveries from them through the same channels. They may also make deliveries to 13 participating New York banks.

The participation of the over-the-counter dealers became effective on Nov. 1 and has proven successful. Even during the dull periods which Wall Street has experienced since Nov. 1 there has been an average of over 400 envelopes a day delivered through the central delivery system and there is every likelihood that the present system will expand.

Briefly deliveries of over-the-counter securities are made about as follows:

Deliveries of securities are prepared at the office of the seller, who places them in a sealed envelope bearing the clearing house number of the dealer to whom they are consigned. Envelopes may contain more than one delivery providing they are going to the same consignee. The only restriction which is placed on the sender is that deliveries shall not aggregate more than $50,000 per envelope. This dollar limitation was imposed mainly as an insurance precaution and is not of immediate concern to the Clearing Corporation.

Repeated deliveries may be made through the central system between 9:00 a.m. and 12:30 p.m. As a messenger delivers securities at the Clearing Corporation window he receives packages which have been consigned to his firm by other dealers.

Fees for use of the delivery system are a flat service charge of $25 per month, plus 5c for each envelope assessed against the sender and 5c per envelope assessed against the receiver. A minimum charge of $50 a month is made so that, for such a minimum 500 envelopes may be received and delivered each month in any combination of receipts or deliveries the dealer may find convenient. Deliveries in excess of 500 are charged for additionally in keeping with the scale of fees.

Over-the-counter dealers who have participated in the central delivery system declare it has resulted in a considerable saving for them and greater convenience, as messenger service in connection with the conventional method of delivery of securities is a troublesome problem to dealers in the New York area.

Wood, Walker & Co. To Admit Two to Firm

Wood, Walker & Co., 63 Walker Street, New York City, members of the New York Stock Exchange, will admit Allan H. McAlpin, Jr., Exchange member, and John T. McClintock, Jr., to partnership on Jan. 1. Mr. McAlpin has been active as an individual floor broker; Mr. McClintock was formerly a partner in John H. Lewis & Co.

H. L. Froy Joins Abraham & Co. Staff

H. L. Froy joined Abraham & Co., 120 Broadway, New York City, members of the New York Stock Exchange, and will be in charge of the firm's foreign department. Mr. Froy has been connected with P. N. Kemp-Gee & Co., members of the London Stock Exchange, for many years.

Kneass Appointed to IBA Committee

George B. Kneass, Vice-President of the Philadelphia National Bank, has been appointed Chairman of the Governmental Securities Committee of the Investment Bankers Association.

Drexel to Admit

PHILADELPHIA, PA.—William F. Machold will be admitted to partnership in Drexel & Co., 1500 Walnut Street, members of the New York and Philadelphia Stock Exchanges on Jan. 1.

J. & W. Seligman to Admit

J. & W. Seligman & Co., 65 Broadway, New York City, members of the New York Stock Exchange, will admit Charles P. Stetson to partnership on Jan. 1.

Vilas & Hickey to Admit

Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange, will admit James W. Riley, Jr., to partnership on Jan. 1.

Buckley in New Location

Buckley Brothers, members New York Stock Exchange, and Buckley Securities Corporation, announce the removal of their New York offices to 120 Broadway.

New Capital and Equities Market

(Continued from page 3)

ing with all spending business improvement and extension which will be during the fiscal year 1948 and 1949 four billion dollars over last year. After election, expenditures of the country's defenses must be expected to rise substantialy. President Truman recently sugegsted that expenditures on defense and stockpiling in the fiscal year 1949-1950 be held to $15 billion.

The inflationary features of our present spending is best represented by the peak years—1921-1923.

Fiscal Year	—Expenditures (in millions)— Nat. Defense	Other	Total
1918	$10,800	$1,900	$12,700
1919	14,400	4,100	18,500
1921	1,800	3,300	5,100
1922	900	2,500	3,400
1923	700	2,600	3,300

We will thus be spending over three times what we spent for the peak war year of 1919!

The tremendous sum of $400 billion spent for unproductive processes has left a great vacuum in our great industrial machine and plant maintenance. The government for such purposes spends a gargantuan amount abroad, which is likely to become rather larger than smaller in the near future.

Importance of Equity Financing

President Truman in his State of Union address to Congress on Jan. 7, 1948, stated: "We are today far short of the industry capacity we need for a growing future. At least $50 billion should be invested by industry to improve and expand our productive facilities over the next few years, but this is only the beginning."

President Truman recognized the need for increased investment in equities for the capital requirements of our business corporations and the extreme urgency in the goal of additional production. Some 412,000 large and important corporations secured $4.5 billion capital in 1947 (the highest since 1927/28/29) $3.5 billion in 1946 and $1.2 billion in 1945; in 1947 these corporations obtained $3.3 billion by bonds and notes and secured $1.2 billion in equity capital. (This is not expected to be equaled in 1948.) This was the highest amount of securities issued since 1929 when $2 billion was issued in bonds and notes and $6 billion through equity capital.

Thus, the growing need for capital funds is indicated by the figures submitted below of the Gross National Product (total output at market price of everything made, and grown, plus services rendered) with accompanying capital expenditures (in billions of dollars—1948 estimated):

(In billions of dollars)

Years—	Gross Nat'l Product	Capital Expenditures
1939	90	5.2
1940	100	6.5
1941	125	8.2
1942	160	16.1
1943	193	4.5
1944	211	5.2
1945	213	9.2
1946	204	14.7
1947	228	17.8
1948	*248	*19.0

*Estimated.

The above table indicates the significance of capital funds and that expenditures over $50 billion have been expended to improve production in the last three years; almost as much as was spent in seven years preceding. No wonder the 8,000,000 unemployed, predicted by President Truman at the end of the war and which was to take place in the Spring of 1946 failed to materialize.

The importance on our national economy of continued expenditures for plant expansion and reduction of cost can thus mean the differences between prosperity and deflation. This is because securing capital through equity financing does not increase the burden of debt. Also, because such expenditures by corporations result in increased facilities and plant which must use and employ additional labor and produces additional goods, all of which in turn add to national income and output.

Accordingly, a billion dollars thus spent is multiplied by 2, 3 and 4 times in amount of production, labor and profit; while the same money obtained through taxes is only spent once here or abroad which, so to speak, does not bring in its train of doubling or tripling of productivity of the original amount invested.

Mystery Market

It will thus be observed that while we have had a terrific rise in other important factors, equities are not far from prewar averages, notwithstanding the intermediate gyrations. Not least of these conflicting and confusing movements were over the two years from May, 1945 to May, 1947 where it can be fairly stated that during the first of these years the stock market went up (Dow-Jones Averages 165-210) while the Federal Reserve Index went down 225-159): the second year the stock market went down (Dow-Jones Average 210-168) while the Federal Reserve Index went up (159 to 185): No wonder economists, chartists and market analysts were and still are confused! Since then, we have had bull and bear markets together where simultaneously new lows and new peaks were seen.

Investors and purchasers of equity securities who do not rely on static investment have been kept in a dither over the last two years over recurrent waves of optimism and pessimism, peak and bottoms of different industries concurrently, viz.: inflation and deflation, depression and prosperity, "boom or bust", peace or war and now the unexpected and hardly to be anticipated new Democratic Administration which has posed new and unexpected problems.

It seems curious that after 16 years of Democratic Administration including three years of President Truman and two years of a Republican Congress that we should have suddenly felt that "evil days are upon us."

Mr. A. Wilfred May, writing in the "Commercial and Financial Chronicle", speaks of the "desperate situation in which the present day investor as well as speculator finds himself" by pursuing the doubtful methods set forth in many publications and systems for achieving market success which are now in vogue. This is because the multifarious events as well as psychology of 15 to 20 million investors or speculators can neither be "polled" nor guaged.

The Market for Equities

The importance of equity financing that has been increasing in importance since the war has been underrated by the Federal Reserve System in its unnecessarily severe imposed restrictions on the stock market.

The raise of margins to 75% which was formerly 50% has impaired the availability of equity purchases and this raise to 75% did not mean an increase of 50% but one of 300%. Cash required is three-quarters of the amount purchased and amount loaned one-quarter or three to one. Formerly, 50% mean one-half cash and one-half loaned or one to one. This has undoubtedly thinned the market as evidenced by the crash of 15.44 points in the Dow-Jones average from the opening of Nov. 3 to the close of the 18th of November, during which time 15,150,000 shares were traded in on the N. Y. Stock Exchange (the sharpest break since Labor Day of 1946 of 22 points). At an average price of $20 per share this represented a turnover of $303,000,000. This would mean that $20,000,000 of stock were traded at one point depreciation. There are 2,004,000,000 shares listed on the N. Y. Stock Exchange of which approximately three-quarters of 1% were traded in and slightly than 99¼% did not change hands in the nine sessions following the election.

A widely published estimate claimed that the market appraisal of American industry dropped $6 billion in these nine sessions, almost $20 for every $1 worth of stock traded in. This does not indicate a wholesale repudiation of the stability of the present democratic incumbency but rather a disturbance greatly exaggerated by reason of thin markets and a great reduction of open buyers and sellers on the N. Y. Stock Exchange; this should be deducible from what has been above set forth.

Mr. Dewey was nominated June 24; Mr. Truman July 5. The Dow-Jones Industrial Average Sept. 27, 1948 was at a low since March, 1948 of 175.99, the rails similarly at 57.45. From there they reached a high of 190.19 in the Dow-Jones Industrial average and the rails similarly of 62.24. This was fairly well maintained up to the Election Day, Nov. 2 (about one point lower in the Industrial average and 2½ points lower in the Railroad average). These Dow-Jones Averages are now (Nov. 22) about where they were at the low of Sept. 27 except that the Industrial average is one point above, and the Rail average is about 1½ points below the former low point. These movements including the crash of 15.44 points from Nov. 3 to Nov. 18 as above discussed could lend itself to the theory that the advance from Sept. 27 to elec-

(Continued on page 58)

IBA PAST PRESIDENTS

1926-27

Pliny Jewell

1925-26

Ray Morris

1924-25

Thomas N. Dysart

New Capital and Equities Market

(Continued from page 57)

tion discounted the expected election of Mr. Dewey which was substatially cancelled with his defeat.

Again stocks in Dow-Jones Industrial averages reached a 163.12, 163.21, 165.39 in 1946 and 1947 and 1948 respectively which have never been violated. The stock list on the N. Y Stock Exchange has been in a trading range since Sept., 1946, between these lows and 194 high. These observations are intended to clarify the question of how serious or well founded the basic disturbance of investors are or should be.

Are Common Stocks Attractive?

The important question presents itself—are common stocks really cheap in terms of commodities, production, income, value of enterprises, wages and salaries and other factors that make up our national plan of production? The present lack of balance in our economy would be indicated by the following table which indicates that $1 can buy more in stock equities than it can in anything else and that common stocks at present are about the least inflated elements of our whole economy. For while the stock index is 30% above the prewar of 1939 all other factors therein set forth of national production have appreciated from 100% to 500%!

PER CENT RISE SINCE PRE-WAR

	% April '47	% Nov. '48	% Incr. Since '47	% Decr. Since '47
Federal debt	535	535	--	--
Money in circulation	280	400	43	--
National income	190	300	58	--
Farm commodity prices	175	175	--	--
Bank deposits	130	147	14	--
*New residential building	100	†176	76	--
*New non-residential building	66	†170	157	--
Wholesale commodity prices	95	130	38	--
Weekly wages of factory workers	90	125	39	--
‡Railroad stocks (Dow Jones)	84	100	16	--
Utility stocks (Dow Jones)	44	25	--	43
416 composite stocks (Standard & Poor's)	35	26	--	25
Industrial stocks (Dow Jones)	31	30	--	3

*Indicates % relationship in money expended—1935-39=100 †As of July, 1948. ‡This increase since 1939 is due to the poor showing of the 1935-39 period which witnessed almost ⅓ of the railroads in bankruptcy or reorganization.

However, taking up more specific comparisons let us make a comparison in terms of actual specific production and in terms of purchases by actual labor. In fact, the essence of America's superiority is its dominant position in production value per hour of labor, notwithstanding our high priced labor and low evalued dollar.

Consider the comparative work required in other products and in other countries, which makes living costs high and wages low in terms of actual labor **since the worker can only receive back less than the value he adds to the product, not as much or more.** The average factory worker in the United States can buy a pair of work shoes with the wages of 3½ hours of work, whereas the English worker has to labor 9 hours, and in Italy 24 hours. In the United States it takes one work-hour to make a cotton shirt. It takes 4 hours in Great Britain and took 9½ in prewar Germany. Sixty work-hours go into an average radio made in a United States factory; 171 in Great Britain; 262 in Sweden. A United States coal miner, using American methods and machinery, produces more than 7 times as much coal as the Russian miner in a given time. An American farmer, using American power-driven equipment, produces 4½ times more than a Russian farmer. An American steel worker produces as much steel as three Russians.

These facts make America's production the dominant note in peace or war. Any party in control must seriously consider changing these basic factors and thus threatening the high return of the labors our prosperity and our much needed senior power the world over — needed now again to save the world from the advancing hordes of communism. We may consider further whether they are attractive in terms of dividends, in terms of earning power and in terms of book value.

In Terms of Dividends

Dividends are an important factor in long-term investments.

Tabulation below shows comparisons as of just after V-J Day, at the subsequent (almost identical) three bottoms of 1946-1947, at the 1948 low and at the low of last week. Also appended are similar comparisons at the bottom of the bear markets which ended in 1942 and 1938. In those two years the yield and spread were far higher, but in 1942, dividends were consuming 80% of earnings, and in 1938, 87% as against the current 46%, in prewar 1939 they were 67%. In other words, dividends at the moment are relatively safer than in any former years relative to margin of earnings and the spread of return over bonds is exceedingly wide as evidenced.

	Dow-Jones Ind. Average	Yield %	Yield on Barron's 10 Highest-Grade bonds	Spread for Stocks
Nov. 9, 1948	173.48	5.79	2.98	2.81
Mar. 16, 1948	165.39	5.70	2.92	2.78
May 17, 1947	163.21	5.09	2 60	2.49
Nov. 22, 1946	163.55	4.44	2.68	1.76
Oct. 9, 1946	163.12	4.30	2.72	1.58
Aug. 20, 1945	163.11	4.08	2.63	1.35
Apr. 28, 1942	92.92	7 97	2.74	5.23
Mar. 31, 1938	98.95	8.07	3.10	4.97

It must be noted that in January, 1929, the Dow Jones industrial average was 317½; the yield on its list of 40 bonds was 4.85% while its yield on its 30 industrial stocks was 2.88%; the yield on United States Government bonds was then 3.47%. In May, 1946, the yield on Barron's 10 highest grade bonds was 2.47% while the yield on the Dow Jones industrial average was 3.23% with the price average at 212½.

In Terms of Earning Power

On the basis of earnings for the latest available six months ended June 30th the comparison would be even more favorable were complete third quarter results available; the Industrial average is selling at as small a ratio to earnings as at any time during the past three years and substantially lower than at the 1938 and 1942 market bottoms. The current 8.4 ratio is roughly half of the 163.12 bottom figure of Oct. 9, 1946.

The following tabulation tells its own story:

	Dow-Jones Indust. Average	Annual Earnings Rate	Times Earnings Ratio
Nov. 9, 1948	173.48	$20.56	8.4
Mar. 16, 1948	165.39	18.64	8.9
May 17, 1947	163.21	19.44	8.4
Nov. 22, 1946	163.55	13.80	11.9
Oct. 9, 1946	163.12	10.02	16.3
Aug. 20, 1945	163.11	10.66	15.3
Apr. 28, 1942	92.92	10.08	9.2
Mar. 31, 1938	98.95	10.50	*9.4

*Barron's by H. J. Nelson.

In Terms of Book Value

No estimate of the soundness of common stocks would be complete without comment on the book values of our sound companies. Most of them have large surpluses and low appraisal of plant certainly in this era of a 57¢ dollar.

It must be noted that a $400,000 investment in plant in 1939, requires about $1,000,000 today and this must earn a legitimate return in competition with plants that have depreciation based on cost of a former deflated economy; more money, therefore, is needed for these same primary objectives. This test of book value bears on the question of overcapitalization which turns on the question of whether the plant can be duplicated at the capitalized price.

However, an increase in Dow-Jones market price averages of some 30% since August, 1939 does not appear consistent with a **market valuation of all stocks listed** on the N. Y. Stock Exchange as of end of August, 1939 of $42 billion against about $66 billion at present prices, except that the Dow-Jones average is a selected list of only 30 stocks. Nevertheless, a rough approximation would indicate that the duplication of this magnificent and overwhelming array of established production that won the war for Russia, England and ourselves could not be duplicated for less than double the present approximated market value of $66 billion. (It was $72 billion October, 30, 1948.)

As to large inventories the Cleveland Trust Co., states in their Nov. 15th bulletin of this year:

"Throughout the present inflationary boom most manufacturers have sought to avoid the building-up of top heavy inventories. As compared with prewar, the current level of manufacturers' inventories as a whole is not out of line with their volume of sales."

The Choice of the Investor

The choice of the investor is among high grade bonds, preferred stocks, common stocks and cash. The first is on a high plateau, highest in decades. The second (high grade preferreds) must similarly follow bonds in the low artificial rate of interest fixed by government edict. The third (common stocks) are not high and only some 30% above 1939 and worth much more than in that period and is the only medium that has not followed the inflationary trend. Cash can buy less than 40% today than in 1939 and, therefore, it has followed the deflationary trend. The only form of property, it may fairly be said that can be bought at 1939 prices is common stocks.

It is not believed that the favorable factors of earnings, dividends, comparative attractiveness of yield, quality and price of goods, common stocks will decline below the lows of the last two years. In any event, their present devalued price for the foreseeable future are such as to allow of considerable appreciation notwithstanding the impact of certain unfavorable factors with which we have been faced during the last 2½ years including a New Deal President.

Today the debit balances of the members of the New York Stock Exchange are $579½ million and the credit balances are $539½ million. Their loans for stocks are approximately $230 million. This is as near as a cash basis that could be imagined with some $66 billion worth of stocks on the New York Stock Exchange.

In 1929, the brokers' loans were a maximum of $8½ billion and no figures are available as to what were the debit balances or credits of the customers of the New York Stock Exchange houses.

In November, 1931, however, the debit balances were $1½ billion approximately and the credit balances $280 million while the brokers' loans were $730 million. This, of course, represented close to the end of the deflationary period and still represented a great deal of outstanding securities with large sums still owing.

It would be interesting to compute the debits of the brokers in 1929 on the basis that the outstanding loans should be necessarily greater than customers' indebtedness as Stock Exchange houses would not be prone to borrow a greater sum of money than the difference between their credits and their debits. The colossal and inflated structure of 1929 has not even a paucity of existence in our present situation.

Bear markets do not emerge from such conditions (rather from rosy-hued prospects and glowing market appreciation), particularly since there is an absence of forced selling through depleted margins or overspeculation. This includes outside of our surprising election the imminent danger of China and ultimately Asia of a billion people following into the Russian maw which could remain a permanent threat to our cosmic position.

It may seem a sophisticated paradox, but stocks look cheap when they are dear and they are dear when they look cheap as experiences have indicated. With all the turbulent processes inherent in our present structure, economics, politics, "boom and bust" and fear of foreign involvement that becomes more complicated every day, it is small wonder that the general feeling of pessimism has pervaded the stock market for the last 2½ years during which period stocks have looked and still look dear. Perhaps this has brought about a speculative neurosis which late events have heightened.

This is not intended as a symposium for a rampant bull market in common stocks. It does mean, however, that the bearish events over the last 2½ years have been overemphasized.

The following conclusions appear justified.

That inflation is deeply inset in our national being and cannot lightly or speedily be eliminated without disastrous consequence.

That President Truman must be fully aware thereof and as well will Congress carry closely before them the implications involved.

That the present majority of the Senate and the House do not seem to be of the "leftist" clan and voted against upholding President Truman's veto of the Taft-Hartley Act.

That the efforts to set up a deflationary program will be viewed with apprehension and difficulties as a depression can

easily be brought about by well-meaning but radical measures.

That Congress and President Truman do not want a depression before the Congressional election of 1950 or the Presidential election of 1952.

That the great need for production as an antidote to inflation is equity capital that can expand plant, increase production at lower costs and thus reduce prices.

That common stocks are the logical vehicle of carrying out a program of supplying equity capital which has been denied to that part of our economy that has needed it most.

That common stocks are more attractive in price, yield, earnings and underlying value in relation to any other elements of our national production, including cash.

That inventories in relation to sales are not excessive. That there is an absence of high optimistic note in business generally as well as an absence of speculative commitments on thin margins, in business and in the stock market which does not spell trouble in the event of a temporary slowdown. This is due to conservative evaluation of the continuance of our present prosperity.

That the tremendous demand—flowing from expansion, construction, depreciation, a huge unprecedented national output, the large national income to labor and farmers element, increase of our armament program and help to Europe and possibly China—should maintain our vigorous and profitable economy for a considerable period of time to come.

That the new Administration could through poor judgment vitally effect the national course of affairs to which the past three years do not particularly give confirmation of deflationary or harmful policies.

That the present Administration including Congress must be fully aware that prosperity wins elections and is "good politics."

However, there remains an important factor about which it is difficult to reach a *definite* conclusion before the new Congress "gets into action," namely, what will the economic policy of the new strongly enforced democratic administration involve? Specifically, will it cautiously analyze corporate profits in terms of the labor element it seeks to propitiate by reason of the so-called late political "mandate?" Accordingly, further, will it scrutinize prices, profits and wages in an analysis of their own instead of the analysis that competitive and free markets make and determine?

This discussion, investigation and analysis of corporate profits is "already on" and appears based on an adolescent method of accounting, involving inventories, depreciation, dividends, return on investment and a devalued dollar which in turn seems based on a continuance of our present high degree of prosperity; a prosperity which is the result of almost two decades of insufficient capital construction caused by a depression and the most destructive wars in history. All these factors in the end are determined by free and open competition which is and should remain the basic concept of "our United States" and forms the backbone of our supreme power.

Investment Bankers Association Holds 37th Annual Convention

(Continued from first page)

Eastern Pennsylvania

Norbert W. Markus, Smith, Barney & Co., Philadelphia.

Michigan

Ralph W. Simonds, Baker, Simonds & Co., Detroit.

Minnesota

G. James Caldwell, Caldwell Phillips Co., St. Paul.

New England

Howard M. Biscoe, Jr., Whiting, Weeks & Stubbs, Boston; Philip M. Stearns, Estabrook & Co., Boston.

New York

John S. Linen, The Chase National Bank of the City of New York; Reginald W. Pressprich, Jr., R. W. Pressprich & Co., New York; Wickliffe Shreve, Hayden, Stone & Co., New York.

Northern Ohio

Charles B. McDonald, McDonald & Co., Ceveland.

Ohio Valley

Ewing T. Boles, The Ohio Co., Columbus.

Southeastern

Edward K. Dunn, Robert Garrett & Sons, Baltimore.

Southern

Harry H. White, White, Hattier & Sanford, New Orleans.

Southwestern

Wayne J. Estes, Estes & Co., Inc., Topeka.

Membership

The Membership Committee reported a net loss of 15 in the active membership during the year. The membership of the Association at the end of the past two fiscal years was reported as follows:

As of Aug. 31, 1948		*As of Aug. 31, 1947*	
Class I	40	Class I	40
Class II	55	Class II	56
Class A	94	Class A	93
Class B	276	Class B	277
Class C	237	Class C	251
	702		717
Registered branch Offices	853	Registered branch Offices	819

Since the beginning of the new fiscal year on Sept. 1, membership losses have totaled eight. Nine new applicants were considered by the Board of Governors during this convention. If they are approved, the membership of the Association will total 703.

The Finance Committee, under the Chairmanship of Francis M. Knight of the Continental Illinois National Bank and Trust Co. of Chicago, reported that during the fiscal year which closed on Aug. 31, 1948, the Association's total income amounted to $187,-628. Total expenditures were $193,508, leaving an operating deficit of $5,880, against a budgeted deficit of $17,529 authorized by the Board of Governors. For the previous fiscal year, total income was $189,054, and total expenditures were $153,502, resulting in a $35,551 surplus. The decrease in income resulted in part from the fact that there was a surplus of $2,098 from the operations of the 1946 convention, whereas the 1947 convention resulted in a loss of $343. Excluding the convention item, income for 1947-48 was slightly larger than for 1946-47. The increase of $40,006 in expenses was due to increased costs of operation (approximately $12,370); to increased activity in certain fields of Association work (approximately $12,565); and to certain extraordinary items, such as anti-trust suit expenses ($9,522) and furniture and fixtures ($5,549). If it had not been for the anti-trust suit expenses, operations for 1947-48 would have resulted in a surplus of $3,642.

Education Committee Report

The Education Committee, headed by John F. Fennelly of Glore, Forgan & Co., Chicago, reported a continuation of the program inaugurated under the Chairmanship of Julien H. Collins, which was established so successfully in the immediate postwar years. The most important accomplishment during the past year was the publication of two booklets designed to assist members in reducing the rate of turnover among the young trainees employed since the end of the war. A study of this problem last year by the Education Committee revealed a wide variation in the experience of investment firms. Thus, it became apparent that the loss of empoyees was serious only in the case of those firms which had failed to adopt methods for the careful screening of job applicants and also to establish adequate on-the-job training programs to supplement formal instruction classes.

To asist members in the selection of new personnel, a booklet was published by the Education Committee on Nov. 1, 1948, entitled "Selecting Investment Bankers—A Manual for Scientifc Personnel Selection." This manual, with a complete set of work sheets, is now available to member firms at a price of $4 and to non-members at a price of $5.

Committee Chairmen, 1948-1949

The following are Chairmen of the IBA Standing Committees for the ensuing year:

Aviation Securities: William A. M. Burden, Smith, Barney & Co., New York.

Canadian Securities: Stanley E. Nixon, Dominion Securities Corpn. Limited, Montreal.

Conference: Edward Hopkinson, Jr., Drexel & Co., Philadelphia.

Education: Nathan D. McClure, Harriman Ripley & Co., Incorporated, Chicago.

Federal Legislation: Edward H. York, Jr., Drexel & Co., Philadelphia.

Federal Taxation: Not yet appointed.

Finance: Francis M. Knight, Continental Illinois National Bank and Trust Company, Chicago.

Foreign Securities: Benjamin J. Buttenwieser, Kuhn, Loeb & Co., New York.

Governmental Securities: George B. Kneass, The Philadelphia National Bank, Philadelphia.

Group Chairmen's: Thomas Whiteside, Chace, Whiteside, Warren & Sears, Incorporated, Boston.

Industrial Securities: Eugene P. Barry, Shields & Company, New York.

Investment Companies: Hugh Bullock, Calvin Bullock, New York

Membership: George L. Martin, Martin, Burns & Corbett, Inc., Chicago.

Mexican Investment: Charles F. Glore, Glore, Forgan & Co., Chicago.

Municipal Securities: William H. Morton, W. H. Morton & Co., Incorporated, New York.

Municipal Division Council: William H. Morton, W. H. Morton & Co., Incorporated, New York.

Oil and Natural Gas Securities: John H. Rauscher, Rauscher, Pierce & Co., Inc., Dallas.

Public Education: Joseph T. Johnson, The Milwaukee Company, Milwaukee

Public Service Securities: Robert Mason, Central Republic Company, New York.

Railroad Securities: John S. Loomis, The Illinois Company, Chicago.

Research Special: W. Yost Fulton, Maynard H. Murch & Co., Cleveland.

Savings Bonds: Ewing T. Boles, The Ohio Company, Columbus.

Small Business: Not yet appointed.

State Legislation: George F. Noyes, The Illinois Company, Chicago.

Stock Exchange Relations: Irving D. Fish, Smith, Barney & Co., New York.

The reports of the leading standing committees, for 1947-1948, submitted at the recent convention, are given in full elsewhere in this issue of the "Chronicle."

IBA PAST PRESIDENTS

1922-23

John A. Prescott

1920-21

Roy C. Osgood

Hurley Now With R. L. Day & Co.

R. L. Day & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announce that J. Vincent Hurley has become associated with them in their New York trading department. He was formerly in the trading department of Lazard Freres & Co.

Wertheim & Co. to Admit

Herbert A. Goldstone will become a partner in Wertheim & Co., 120 Broadway, New York City, members of the New York Stock Exchange, on Jan. 3.

Hints on Investment Hedging

(Continued from first page)

under these circumstances; it is an absolute necessity.

Hedging—Against What?

Moreover—just what is to be hedged against? Almost anything might happen, and no exact timing is possible. No one knows the future with any degree of assurance, but everyone should surmise that dangers, and prepare to face them.

That much is clear: This is an inflationary period even for the United States and Canada, to say nothing of the rest, and indications are overwhelmingly that the global inflation has not yet run its course.

Given the prospect of a ceaseless gold influx, as well as of incessant monetization at cheap money rates, of a colossal national debt, given also the vast accumulation of liquid funds on which to draw, plus the practical certainty of a new Federal deficit to arise sooner or later (to be financed by the printing press), recurrent waves of wage and price rises constitute the number one hazard. The liberal welfare state that entertains the pressure groups by generous subsidies and at the same time carries the burden of the Western World's economic deficits and rearmaments, may tax capitalism into semi-socialistic regimentation, but it must live up to its own goal of full employment. And the price of full employment is inflation. War preparations or actual war may carry it into a run-away fever.

Briefly, we in these United States have behind us 15 years on the road which it took France only 12 years to travel (referring to the collapse of the franc in 1926). History has its roundabout ways of repeating itself.

On the other hand, even the most carefully managed or "suppressed" boom is bound to come to an end. An "intermediary" recession, if any, should be overcome quickly, by paper shots-in-the-arm. But this inflationary medicine to which we owe a virtually uninterrupted prosperity spell of nine years, cannot last forever. The latest term is the date at which the national credit is exhausted—when an ever-further stretched currency reaches the end of the confidence rope.

This double prospect, inflation *and* deflation, is greatly complicated and confused by *discriminatory interferences*. They include taxes against business and the saver, political interventions which reduce profits one way or another, be it by controls, regulations and restrictions, confiscatory measures of the type of capital levies, the withholding of labor or raw materials, nationalizations, and arbitrary methods to stymie enterprise, to violate property rights, and to pervert contractual relations.

Economic reason presupposes that not only individuals and corporations, but also the policy-making public authorities act rationally—according to the rules of the economic game. When the rules can be and constantly are changed while the game is on, betting becomes extremely hazardous.

Learning From History?

In the past, even as late as in the 1920's, the investor had easy escapes at hand. One could own gold and reliable gold-convertible foreign assets. If one country went haywire, the door was open for investment in others. Taxes were comparatively moderate even in Europe. If French insurance stocks rose with the franc depreciation, and led the Paris bourse after the stabilization, it was because French insurance companies were free to hedge through investing in gold assets. Common stocks often lagged behind commodities, but they skyrocketed with an inflation that was not driven underground temporarily by governmental manipulations. Foreign exchanges were permitted to seek their own levels. Profit-making was not frowned upon. In Germany's runaway inflation, public utility stocks, as an example, held their own because the system was one of comparatively free enterprise, much freer than any of this age.

In short, it would be futile to try to copy mechanically the hedging policies used in inflations of the past. Nevertheless, they may serve as guide-posts of a sort, to be followed or discarded, as the case may be. Short of assuming a catastrophe in the most literal sense of the word—that this country may be pulverized physically by A-bombs, or morally by bolshevism — the basic laws of economic logic remain valid in the long pull, even under advanced New Dealish conditions, or in a Garrison Economy.

Problem of Hedging

The problem of hedging is to *preserve the capital* itself against extraneous forces superimposed upon the regular course of business.

Whether the threat is to stymie the earning power (of assets) in a permanent fashion, or the purchasing power (of paper claims) by depreciation; whether the assets might be expropriated directly and indirectly, or physically damaged: the hedging operation means to convert the capital into a form in which these risks are offset, in part at least.

Hedging may consist of nothing more than proper financing. Inflation means the perversion of all sound financial procedure. The more debt and the less equity, the stronger is the latter's position during the inflation. (The creditors will hold the bag.) To rely on customary standards or ratios of orthodox financing is to ignore the realities of such a situation. But even during a sharp inflation, unorthodoxy pays only as long as money rates remain low compared with the tempo of inflation. Therefore, long-term financing at the present rates is far preferable to borrowing on a short-term basis.

However, two considerations should dampen the propensity of hedging with borrowed money. One is the slow character of the current inflation. Suppose it does not accelerate much during the next five years: it might turn out that one has over-hedged—unless one has taken out insurance against this risk, so to speak, through maintaining proper liquidity.

Even more significant is a second consideration. What about the status of a financial setup, private or corporate, which is caught with a short leverage *when the inflation ends*? Unless the investor has been fortunate enough to liquidate at or near the peak of the inflation and enters the deflation in a strong liquid position, or unless his portfolio of *depression hedges* is a strong one, he might find himself under a crushing debt burden.

This maneuvering between too much and too little liquidity is one of the difficult problems involved in long-term hedging. A simple answer would be to avoid debts altogether. A more realistic answer is to take substantial recourse to outside funds, but to do so preferably on a long-term basis, at the prevailing low interest rates, and on an amortization schedule with the option of early repayment at the debtor's choice.

Against inflation and its aftermath—which imply the destruction of paper liquidity—the control or possession of "substance" is now, as it always has been, the logical way of hedging, provided:

(a) That the owner can "wait" —keeps sufficiently liquid and has enough current income from the same or other sources to hold through;

(b) That it is not undertaken as a substitute for, but as an addition to, what is the sensible way of investing in each individual instance;

(c) That the substance will not be expropriated, or taxed away, in the process;

(d) That the cost of the hedging operation is not prohibitive; and

(e) That it has been undertaken in a well-diversified and well-assorted fashion.

No single investment outlet exists that would answer all prayers. *Gold* comes nearest to being the perfect hedge—if you can have it —because it is bound to appreciate in the subsequent depression, if not before, when not only paper claims but even most commodities are on the losing side. Being the ultimate, ubiquitous, and indestructible liquidity, it emerges unscathed from every inflation.

In a controlled economy, *devaluation* of the currency may be postponed until the inflation ends —until the bonds of control break (as already, or again, is the case in France). In the meantime, gold is available, but often at exorbitant prices, on black markets which are not to everybody's taste. There still remains the legal loophole of buying (usually in 100 ounce lots) unrefined or virgin gold, at prices some 15% to 20% above the official $35 per ounce. Needless to say that the ownership of unrefined gold may be outlawed, too, so as to lengthen a tottering paper money's hold on life. Even so, the risk may be worth taking.

Apparently, it is not illegal to hold gold abroad (but the legality may be revoked on short notice). Since almost the entire world is caught in foreign exchange restrictions, the question is: where to hold it? Some Latin American countries like Venezuela, Cuba, and Uruguay have not yet clamped down on gold exports, but may do so in the future, as Mexico did not so long ago. Presently, the international zone of Tangier is the safest haven and will remain so while it stays under international rule.

Gold shares are a substitute for gold with the advantage of dividends received instead of storage paid — provided dividends are forthcoming. In spite of the likelihood that the managed inflation may last several more years, and that gold shares may not have reached the market botton as yet (caught as they are between a fixed gold price and rising gold production costs) they constitute a highly important hedge which no prudent investor should overlook.

Diamonds are as good a material substitute for gold as can be found. They rise in price under unsettled monetary and political conditions, and may run well ahead of other commodities. Highest grade, pure (cut) stones, in particular—distinguished from jewels as well as from industrial and low-grade diamonds — enjoy worldwide marketability under any circumstances. Inflation drives up sharply their costs of production simultaneously, their market is boosted by overspilling luxury buying and by hedging demand. Market control by the famous Syndicate is a factor of stabilizing influence. Another feature is— the tax: 20% presently in the U. S. (payable once only, on the retail level). It is likely to rise under fiscal strains; 66% is the rate in Britain.

Lacking the "perfect" liquidity of gold is the shortcoming of diamonds—and a boon in disguise: it spares the owners the kind of headaches which beset gold, due to the public interest in its monetary function. And when worse comes to worst, as it did in Europe and elsewhere time and again . . . let us hope it never will happen here.

Common Stocks

Be that as it may, the average investor should not sink much more (nor much less!) than, say, 10% of his fortune into gold— or gold shares — plus diamonds. They are last-ditch hedges, so to

speak. Earning assets must constitute the bulk of investments, hedge or no hedge. That brings common stocks to the fore.

But why are they so underpriced now, measured by any standards, in view of the inflation threat, and contrary (allegedly) to all experience under comparable conditions? The collective judgment of the market-place does not indicate any inflation fear. If that judgment is wrong, as it proved to be for 2½ years, what reliance is there on its future behavior? Will stocks not be disappointing just when they should provide the protection needed? If they act as they do in the biggest boom, what can be expected from them in cyclical reversals, to say nothing of the "ultimate" reckoning?

The stock market's function should be properly understood. Its fluctuations—given the level of interest rate and of corporate earnings—are determined by speculators, professional or otherwise. They appraise and underscore the next turn only. What may happen years hence is no more their business today than is the grain market's job to evaluate the price of December, 1948 wheat in terms of the supply-demand situation that may be forthcoming in December, 1949. In other words, the stock operator expects to take a profit or avoid a loss at the nearest turn—first things first—and to cross subsequent bridges when he reaches them.

Long-term hedging in common stocks means to take advantage of the market, rather than to be guided by it. The question is not: What does that market register now, when it expects a "natural" down-turn of business activity, "natural" in the light of this country's experience that booms do not last longer (under the defunct gold standard, mind you) than eight years? Or when it fears that corporate earnings may be crushed shortly by incisive regimentation (that could not last very long in America), or by a sudden and substantial rise of the interest rate (which is, however, out of the question)?

What matters, in reality, is not the hesitancy and inconsistency of an unsettled market at a time when the decision as to which way we go still seems in the balance. What matters is the question: How will it behave if and when new budget deficits appear, or new shortages, and the inflationary storm breaks loose? There can be little doubt about that. As a matter of fact, the far-sighted investor—who does not indulge in day-dreams of buying at the lowest and selling at the highest—is at present in the very fortunate position of being able to take full advantage of Wall Street's short-term-mindedness. He can buy shares of first-class mining, industrial, and merchandising firms to hedge not only against the prospective depreciation of money and "money bonds," but in many cases, even against the deflationary aftermath.

Notwithstanding higher taxation and other techniques of persecuting corporations, domestic common stocks remain, as they always were, a comparative haven for inflation-threatened capital. (The same holds for preferred stocks and "credit" bonds only so long as they have not reached par—for which they are heading.) That much should be evident. The difficulty is in choosing between the industries, and the individual units within each. That is a chapter in itself, to be analyzed under the points of view of the *post-inflation earning potentials*, their greater or lesser vulnerability to controls, and above all, of their *managerial ability* to adjust themselves to violent changes in the economic climate.

Hedging in commodities presents problems of its own. Properly selected, standardized commodities (marketable on the exchanges) are the most sensitive barometer of monetary change, provided governmental controls do not upset the calculation. In any case, forward buying and selling and the carrying of futures involve loss of earnings, actual charges, and additional risks.

As a general proposition, this type of self-insurance can be used in a temporary fashion only. Timing is of the essence; otherwise, the process might boomerang. Unless the market trend is assured, the layman had better keep his hands off. It is a different story for the "insider": he who can use this instrumentality *in the framework of his own business.*

Internal Hedging

That brings us to the most important single channel through which hedging efforts should be directed in the first instance: one's own business, be it the home, the farm, or a going concern. Urban real estate and farms are the most durable goods (other than gold and diamonds), which consideration is important in itself. Accordingly, they used to offer in the past full protection during inflations, and fair protection after, disregarding passing crises. Under bureaucratic manipulations and wealth-redistributions, they lost much of this attractiveness (think of the fate of rental properties!) unless for exceptional reasons. Absentee-ownership of the fundamental durables is a thorn in the brain-truster's side. But the home owner and the independent farmer are just about the last ones to be victimized.

The business or farm one knows and runs—preferably several of them, and the house one occupies—they are not only part and parcel of one's protection (together with properly adjusted insurance policies, etc.) against the unpredictable as well as the "normal" hazards of economic life. They also offer all sorts of possibilities of managerial adjustment. Risk distribution, to repeat, is as vital for the cautious hedger as it is for the prudent investor.

Thomson & McKinnon To Admit Two Partners

Thomson & McKinnon, members of the New York Stock Exchange, will admit Owen H. Gassaway and Bernard E. Teichgraeber to partnership in the firm on Jan. 1. Mr. Gassaway has been with the firm in the Jacksonville, Fla., office. Mr. Teichgraeber has also been with the firm for some time.

Joseph Hammel With First Securities Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Joseph F. Hammel is now with First Securities Co., 134 South La Salle Street.

Joseph F. Hammel

Mr. Hammel, who has recently been with Straus & Blosser, in the past was with Kneeland & Co. and Mason, Moran & Co.

W. L. Taylor Partner In H. C. Wainwright

CLEVELAND, OHIO.—The New York Stock Exchange firm of H. C. Wainwright & Co. will admit Warner L. Taylor to partnership on Jan. 1. Mr. Taylor has been with the Cleveland office in the Union Commerce Building for some time. Prior thereto he was an officer of Ball, Coons & Co.

Harry I. Belden With Charles A. Fuller Co.

Rice to Join Loew

MINNEAPOLIS, MINN.—Harry I. Belden has become associated with Charles A. Fuller Co., North-Western Bank Building. Mr. Belden was formerly President of Frank & Belden, Inc., which has been dissolved.

It is understood that Harry C. Rice, formerly Vice-President of Frank & Belden, Inc., will represent Loewi & Co. of Milwaukee in Minneapolis.

IBA PAST PRESIDENTS

1918-19

W. G. Baker, Jr.

1915-17

Lewis B. Franklin

Subsidy and Freedom

"We would do well to try to steer a course that will preserve as much freedom as possible for our farm business and for the general economy.

"Specifically we ought to keep Government out of the markets.

"Let the (Government) support on non-perishables take the form of loans. On perishables, let the Government make simple compensatory payments to producers, somewhat as it did on milk during the war.

"In that way we can have income support, yet prices will find their own level in the markets.

"We are headed toward a degree of State control of our productive energies that spells a weakening of free enterprise, free markets, free farms, and, as labor will ultimately find out, free workers."—Albert B. Genung, Economist of the Northeast Farm Federation.

We share the fears of Mr. Genung, but we are doubtful (as he does not seem to be) that the farmer can indefinitely have both subsidy and his full freedom.

J. B. Hanauer & Co. Will Admit Woody

NEWARK, N. J.—J. B. Hanauer & Co., 50 Commerce Street, members of the New York Stock Exchange, will admit Charles L. Woody, Jr., an Exchange member, to partnership on Jan. 1. Mr. Woody has been active as an individual floor broker.

On Dec. 31, Adrian R. Kristeller, member of the Stock Exchange, will withdraw from partnership in J. B. Hanauer & Co.

R. L. Day & Co. to Admit Karl P. Herzer

Karl P. Herzer will become a partner in R. L. Day & Co., 14 Wall Street, New York City, members of the New York and Boston Stock Exchanges. Mr. Herzer in the past was a partner in F. S. Moseley & Co. On Dec. 31 Charles C. Townsend will retire from the firm; he has been in charge of R. L. Day's New York office since October.

As We See It

(Continued from first page)

he intends to abolish the business cycle. He has, moreover, in his files copies of his campaign promises which offered varied and often quite inconsistent suggestions as to how this should be done.

High prices were one of his important "talking points" during his tours through the country. He was definitely going to do something about them. Low prices threatened the farmer — and he was going to do something about them. There were a great many poor people who could not manage to live as they thought they should be able to live — and he was going to do something about that. There were any number of things which should be done with public funds, which doubtless would tend to keep business going (so he thought, at least). He would see to that, too, and at the same time in some unexplained way public finances would be managed so that no inflation would be generated from that quarter. And so on more or less indefinitely.

Must Now Get Down to Earth

Now he is under the necessity of really getting down to earth on some of these questions, and his task is immensely complicated at the very outset by the fact that he finds it difficult to determine whether it is a continuation of the boom or the prevention of a substantial recession that he has to combat. He has his "experts" at work on the question, but one need scarcely be a prophet to guess that they at this moment at least are having their troubles, too. It would require relatively small reductions in volume in most instances under existing conditions to turn the profits about which the President and his advisers are so fond of talking into losses, so low is productivity, so high are wages and so high are what are known as break-even points.

For a good while past, the Administration and most of the labor leaders supporting it have been counting on high profits to take them over a good many political hurdles and to furnish the basis for demands for higher wages. They constituted one of the hopes, doubtless, of the Administration for a source of "painless" taxes. If presently these profits disappear or threaten to vanish, an excess profits tax would have little meaning, and steeply raised corporate income tax rates could hardly be defended by any of the stock arguments now brought to bear. Prices, meanwhile, have been hesitating for a good while past — even during the campaign for that matter — and though they continue to furnish a good means of stirring up the emotions of the people, it could be that increasing unemployment will presently be politically more dangerous.

Must Not "Stall"

Yet the Administration would run very considerable risk in "stalling." Business is at this moment hesitating, so far as it is hesitating, largely because it feels a deep uncertainty as to what the new Truman Administration will do. It is beginning to feel that the President and his advisers are showing some indication of wincing and relenting and refraining in the face of adverse business news. This apparent prospect has tended to take off some of the edge of nervousness about the situation, but it has as yet had no definitive effect. If the President is to remove himself entirely as cause of any substantial setback in business during the next few months he must make it reasonably clear in the relatively near future that he has no intention of "implementing" a number of his campaign promises at least for the present. For him to proceed with excess profits taxes or a substantially increased corporate income tax; for him to go to work in earnest for a repeal of the Taft-Hartley Act and a substitution therefor of the old Wagner Act; for him to insist upon even the standby power to ration or to control prices; or for him to do any of a number of other things he was constantly talking about during the campaign would be to invite a recession not at all to his liking. To leave the whole matter in a state of great uncertainty would be only a little less troublesome.

Yet if the President were presently to reach the conclusion that a serious recession threatened, and that accordingly the Administration must proceed at once and with vigor to induce a return to or a continuance of the high rate of business activity which has been obtaining the outlook for a sound growth of industry and trade in this country would certainly not be greatly improved. It could hardly be otherwise in view of the faulty diagnosis — if such indeed it can be called — of the current ills of business. Most of the New Deal school of thinking insists that depressions are caused by maldistribution of income from current production, too much going to "capital," or the over-privileged, and too little to the masses which constitute the market for most of the consumer goods and services. This, naturally, makes an excellent political analysis, but it has little else to recommend it. Any hesitancy at this time definitely originates from no such cause. In real ability to buy consumer goods and services the wage earner never was so well off. On paper he may have been as well off or possibly better off for short periods of time during the war and immediately after, but all this was more apparent than real.

No Back Seat Drivers!

If a real recession were to develop in the early future or if one is threatening now, it has other causes, and any steps taken by a Washington Government based on this philosophy of higher and ever higher wages could not fail to have an adverse effect upon the situation. Business needs no tips from government and it certainly is not in want of a back seat driver from the national capital. What it does want and need is an Administration which would give up the idea that it must run the business of the country as well as its government. Such an attitude on the part of the present Administration is admittedly unlikely. It is too deeply committed and its thinking is too involved with foolish notions about economics. Yet it is precisely this that the country most needs at this time.

If only post-election developments were to lead the President to make a clear and unequivocal statement that conditions at present do not require action on his part heretofore contemplated at least at this time! It would be no solution, but it would help.

George Cooper Dead

George Cooper, partner in Jacques Coe & Co., died at his home of a heart attack at the age of 48.

Paul Andersen Dead

Paul C. Andersen, partner in Cyrus J. Lawrence & Sons, New York, died at his home at the age of 44.

Dangers of Bond Unpegging Termed Exaggerated

(Continued from page 4)

ever, that large selling will develop in the future from savings banks. It must be remembered that savings banks not only have relatively high operating expenses but continuing pressure for a 2% rate of interest on their deposits. Even with expanded demands for new capital on the part of business, it seems doubtful if the savings banks can find a suitable medium for investments if they sold a substantial part of their U. S. Government holdings.

The life and fire insurance companies hold the largest proportion of the bonds with call dates of ten years and over. This figure equals $16,401,000,000. Since the beginning of 1947 the life insurance companies have reduced their total holdings of government securities from $20,015,000,000 in January, 1948 to $17,642,000,000 in September of that year, a decline of $2,373,000,000 or about 11.8%. The proceeds resulting from the sale of these U. S. Government Bonds were placed along with accumulating premiums into increased holdings of corporate bonds and real estate mortgages. In other words, there has been no panic dumping of U. S. Government securities but a gradual shift of investments from U. S. Governments to corporate securities and real estate. It is believed that in 1949 the capital requirements of business and real estate will be at a somewhat smaller rate than in 1948. Therefore, there will be less opportunity for the insurance companies to convert their government securities into higher yielding corporate and real estate paper.

On the other side of the picture it has been frequently pointed out that the Federal Reserve System has ample power at the present time to support the bond market. For example, as of Dec. 1, 1948, the Federal Reserve System held $11,995,000,000 of bills, certificates and notes which could be sold to the banks and the proceeds used to support the long-term bond market. The Federal Reserve held gold certificate reserves of $22,260,000,000. Under the present law, which requires 25% reserve be held against notes and deposits, the Federal Reserve System could buy $42,431,000,000 additional of U. S. Government Bonds without reducing this gold reserve ratio below the required minimum. This would seem to be ample to support the U. S. Government Bonds which might be offered in the market and, of course, avoid any panic.

It is not meant to imply by the above that the problem of supporting the market is not serious. On the other hand, it is believed that the seriousness has been overrated in an effort to justify continued and rigid support of the present pegs. In addition, it is not believed that the Federal Reserve should entirely withdraw all activities as far as the money market is concerned. It is felt that the Federal Reserve should stand by in order to insure that no panic does develop by ill-advised selling and that the liquidation is orderly.

Conning & Co., Ballard To Admit Partners

HARTFORD, CONN.—Conning & Company and Ballard, 50 Lewis Street, members of the New York Stock Exchange, will admit Basil F. Austin and John H. Beardsley to partnership on Jan. 1. Both have been with the firm for some time.

The Job Before 81st Congress

(Continued from page 6)

tinue to follow, in the management of our finances and the reduction of our public debt.

Question of Taxation

On the question of taxation, the commitment of our party went only to the extent of a reduction in taxes whenever it is possible to do so without unbalancing the nation's budget, by giving a full measure of relief to those millions of low income families on whom the wartime burden of taxation fell most heavily. The platform did not commit itself to any increase in taxes, and I think it is fair to say that, unless the imperative needs of the Treasury in our international and domestic situation require it, there will be no increase in the tax burden imposed upon the American people. There was one positive commitment against the enactment of a national sales tax.

There has been considerable discussion of the possibility of the re-enactment of the excess profits tax because of the unprecedented industrial profits which American business has enjoyed before, during, and since the war. President Truman recommended the re-enactment of an excess profits tax in his message to Congress dealing with the question of inflation. I have no information as to whether that recommendation will be repeated. But unless increased income should be necessary, or unless Congress should be convinced that a re-enactment of an excess profits tax would be an essential part of an anti-inflation program, I am not in a position to predict that such a tax will be re-enacted. It is an extremely controversial subject, and there are those who honestly doubt whether the re-enactment of the wartime excess profits tax would reduce the cost of living, or merely reduce the net profit upon which existing taxes would be collected. We repealed the excess profits tax at the end of the war because it had been a wartime taxation measure, and because it was anticipated that in the reconversion period there might be great unemployment and a slack in business activity, and that the repeal of this tax would stimulate both employment and business activities. The expected unemployment did not occur. Instead of there being a lag in the business activity, there was an acceleration, and we have reached an all-time peak in our production of goods and services and in the profits made therefrom. Undoubtedly this situation must take its share of responsibility for the inflationary conditions which we seek to curb, and I have no doubt that Congress will have the courage to deal with it realistically in the light of conditions which now prevail, or will prevail in the immediate future. And whatever it is found essential to do in this respect, I have no doubt that the American people will accept the result with that same degree of acquiesence and support for which they have been noted in every crisis of our history.

Taft-Hartley Act

Of course, one of the most controversial subjects during the past campaign and the past two years, and probably in the next few months, is the Taft-Hartley Labor Act. The President vetoed this Act when it was passed by Congress. As a member of the Senate, I had voted against it, and voted to support his veto. The Democratic platform pledged itself to its repeal, because we felt, and I now feel, that the law was harsh and unnecessary, and that it undertook and succeeded in withdrawing essential rights to labor organizations and their members, as American citizens, and affected the harmony and spirit by which collective bargaining ought to be surrounded. It would be unthinkable that the incoming Administration would not recommend and that the Congress would not pass an Act repealing the Taft-Hartley Act, and I look for that to be one of the first efforts of the new Congress to carry out its pledges to the people. Whether the repeal of this Act will automatically re-enact the Wagner Act, is a matter of legislative and parliamentary concern. The repeal of this law does not mean that some modification of the Wagner Act is undesirable. Experience makes us wiser, if we are wise men, and it may be that there ought to be modifications in the administrative procedure of the original Wagner Law, growing out of the experience of the last decade during which it has been administered. But such modifications as are necessary should be made with the conviction that the fundamental rights of collective bargaining, guaranteed in that law, shall not be decreased or weakened by any Act the Congress may pass. I have no doubt that whatever is done in this field will be just to employees and employers and that they will be able more harmoniously to work under it, if they desire to work under it.

When the Labor Department was created, it was designed to facilitate the welfare of the laboring people of the nation. In recent years it has been mutilated and almost stripped of all its essential powers. We propose, and it was one plank of our platform, to re-establish the Labor Department as originally contemplated and make it a real force in the progressive development of the welfare of the American worker and the whole American industrial system, which will automatically benefit the welfare of the whole people.

When the original minimum wage and maximum hours' law was passed, it was something of an experiment; 40 cents per hour as a minimum wage is pitifully inadequate and you will be surprised to know the number of workers in the U. S. who receive no more than 40 cents per hour. We have pledged ourselves, and the President has recommended, and no doubt will recommend again, the increase of the minimum wage to at least 75 cents per hour. This commitment of our platform and of our party will be promptly carried out.

Extension of Social Security

We have pledged ourselves to the extension of social security and to the increase of its benefits. Experience has shown the need for its extension to cover millions of others who are not now covered by the old age subsistence and unemployment features of the social security program. In view of the obligation of society toward those who have spent their lives in its service, but have not been able to accumulate a competence for their declining years, and to those who may be unemployed through no fault of their own, we feel that the social security program should be extended and its benefits increased. This will benefit not only the aged and the unemployed, but it will also be beneficial to those who are younger and employed and employable, because it will relieve them of the burden of maintenance in many instances, of their relatives, families and kinsmen, and create wider opportunities for their own employment at adequate wages for the support of their own families.

One of the great deficiencies in American cultural life exists in our educational system. This deficiency was tragically emphasized during the recent war in the examination of draftees called up for service to their country. We have pledged ourselves to enact legislation granting Federal aid to the states in the improvement of their educational facilities. Whatever lowers the educational standards in one state, lowers their standards for the country as a whole. We feel that the American people have endorsed the program to which we are committed; that Congress shall promptly enact legislation granting aid in the sum of $300 million at least for the improvement of our educational system, and for the guarantee of equal opportunities to the children of the nation, regardless of geography, in the attempt to prepare themselves for the battles of life.

Farm Legislation

On the subject of farm legislation, we are equally positive in our attitude. We recognize that there can be no general prosperity in the nation if agriculture languishes. Over a period of years, without regard to politics, under Democratic and Republican Administrations, Congress has endeavored to deal with this situation by the enactment of farm legislation. We are all familiar with the results. Congress has, by the enactment of the Agricultural Adjustment Act, the Soil Conservation Act, the Price Support Act, and the increase in the reclamation programs, helped to create a prosperous agriculture, which has reflected itself in the prosperity of every other class of our people. Farmers buy about 25% of American manufactured products as a whole. This 25% purchasing power means employment for labor and profits for industry. In turn, a prosperous and well-employed labor offers a wide market for agricultural products, creating a mutual partnership profitable to both and indispensable to the country. We have proposed, and shall carry out our commitment, in regard to farm support prices, the continuation of the farm program and its extension, including soil conservation, through long-term, far-sighted legislation, upon which agriculture may depend. There can be no question that this subject will receive prompt and favorable action by the incoming Congress.

Congress may be expected also to continue and make more effective flood control, whose cost, in comparison to the losses suffered by floods, is inconsequential.

Civil Rights

In his message to the 80th Congress, the President recommended the enactment of legislation preventing discrimination in the enjoyment of the fundamental rights by people of America by reason of race, color and nationality. We have become the leading democracy in the world. While our democracy is not perfect, it is the best that men have yet been able to devise, but we owe it to ourselves and to future generations to perfect it wherever possible. It is a subject that arouses intense controversy, as we well know; but the controversial aspects of it cannot minimize our obligation to deal with it. No democracy can claim to approach perfection so long as its government can require every citizen to offer up his life in defense of that democracy, but deny to him participation in its processes when it has been preserved. I have faith to believe that a Congress elected upon a platform that commits itself to an honest effort to bridge this gap between theoretical obligation and practical opportunity, will approach the subject in the spirit of a true America, that will recognize the rights of all American citizens to enjoy the benefits and participate in the processes of their government.

There are many other matters of domestic concern with which Congress will be compelled to deal. They will be brought forward as circumstances and necessity may require. But, I wish to reiterate my own unalterable conviction that no political party, and especially the one which has recently succeeded, can afford to repudiate its solemn commitments to the American people, either by inaction or by inadequate action. It is through this process that we justify democracy and justify the faith of the people in any political group that lays before them a program of action, the consummation of which they have a right to expect.

International Relations

In the field of international relations and foreign policy, fortunately there was little difference between the two great contending political parties in the

(Continued on page 64)

IBA GROUP CHAIRMEN

CALIFORNIA

Thomas E. Morris
Blyth & Co., Inc., San Francisco

PACIFIC N'WEST

Harold M. Martin
Murphey-Favre, Inc., Spokane

The Job Before 81st Congress

(Continued from page 63)

recent campaign and election. We have been able to reaffirm more emphatically than ever our theory that politics should end at the water's edge. Our foreign policy has been non-partisan, because we recognized, even before the termination of the war, that its conclusion and aftermath would present to us problems that could not be solved by any single political party. We have been happy in the attainment of that form of unity and cooperation among all political groups, which has presented to the world a picture of accord and understanding among the American people, even of some of the more intricate problems that dwell in the field of diplomacy. We shall continue this program.

We are committed to the maintenance and the strengthening of the United Nations. If this great agency shall not succeed, man may lose his hope of the future of civilization. Its difficulties are apparent, and are made more acute by the intransigence of totalitarian nations seeking an aggression, and seeking to destroy our conception of democracy. We shall, to the utmost of our ability, preserve, strengthen, and perpetuate the United Nations as a means of settling international controversies, in the hope that ultimately all nations and all peoples will accept it as the tribunal of world peace.

We are committed to the continuance and extension of the Reciprocal Trade program, under which many of the harsher barriers between nations in regard to commerce and trade have been modified. We have come to know that our nation must find markets in the world for its surplus products, and in exchange for those markets, we must afford reasonable opportunity for other nations to sell their products to us. The Reciprocal Trade program benefited us and has benefited the nations with which we have had agreements. Our commerce with trade agreement nations has increased during the last 14 years by nearly twice the percentage of increases with non-trade agreement nations. We know that men must work in order to live. They must sell what they produce, in order that they may be employed. We shall undertake to continue this great program, because its only alternative is a return to the log-rolling, back-scratching, horse-trading days when partisan politics was the chief motive behind the enactment of tariffs, based upon special privileges to special interests.

We are committed to the continuance of the Marshall Plan for the recovery of Europe, and we shall honor the commitment. We shall, of course, expect the beneficiary nations to carry out all their agreements as a condition upon which this aid is being received. While there will be difficulties, and no doubt some disappointments, I have no reason to believe that the nations which we are seeking to aid will repudiate their part of the program, but will undertake in good faith to justify our assistance, in order that they may stabilize their political and economic institutions, resist encroachments of totalitarianism, and build a firm foundation for future peace and prosperity.

We shall continue to maintain the dignity and the rights of the American nation in its dealings with all the nations of the world. We shall continue to foster the agencies of peace and the principles upon which peace may be secured. We shall continue to press for self-government without outside interference or agression among the peoples of the world who desire to be free and among the nations which attempt to guarantee that freedom.

We shall continue to press for peace treaties affecting the welfare of the defeated nations in World War No. 2, and we shall continue to insist that all the nations affected by the aftermath of war and the collapse of economic and political and social institutions, shall, in good faith, seek to strengthen themselves in their democratic processes, and in the utilization of every possibility for economic and political stability.

We shall continue to urge international control of the agencies of mass destruction. We shall continue to urge disarmament among the nations of the world at the earliest possible date, but until that great boon has been attained, we shall continue to keep ourselves strong to defend our institutions, and to defend the democratic ideals, which cannot be obliterated without the destruction of civilization itself.

In our foreign policy, we shall be the Good Neighbor, not only to all our American colleagues in the family of nations, but to those nations which seek to preserve the flickering light of democratic institutions as a bulwark against the advance of godless and faithless ideologies, which are utterly antagonistic to the democratic ideals.

We shall continue to welcome the sincere cooperation of all nations, regardless of their present attitude, in the effort to bring peace of the world, lift the burden of fear and of taxation, and of the physical and moral destruction from those who have, from time immemorial, borne the burdens of international conflicts.

If, in the period of four years, we shall be able, through the cooperation of the American people and of the free peoples of the world, to bring about the realization of these ideals, there will be glory enough for every man, regardless of his politics, his religion, or his national origin.

In behalf of all these hopes and promises, I am sure I speak for the Government of the United States, not only in welcoming, but in soliciting, the sympathetic cooperation of all the American peoples and all people of good will, wherever they abide.

As we approach the Holy Season of Christmas, may we be inspired by the hope that we may ultimately have peace on earth and good will to men.

Television Boom Is On!

(Continued from page 9)

that of any previous television program.

Opinions of Experts

Mark Woods, President of the American Broadcasting Co., on the Oct. 12 "Town Meeting of the Air" broadcast stated:

"Television is the most dynamic, constantly growing vital industry that the world has ever known. . . . Today the industry looks to the motion picture field to provide it with a great part of the entertainment which we need. . . . If the motion picture companies are unwilling to enter this new industry . . . then my company is most certainly prepared to do so."

On this same broadcast, James Carmine, Vice-President of Philco Corp., stated: "Television is the fastest growing industry in America. Its progress in the last 18 months has surpassed even the early days of the automobile, the motion picture, and yes, even radio itself. There has never been anything in the industrial history of our Country to equal it."

"In March of 1947, there were only 25,000 video receivers in the United States. Today, there are over 600,000 television receivers and they are going into the American homes at the rate of several thousand per day. . . . The motion picture industry has a second great opportunity in televsion —making special films to be shown over the air. It has been estimated that by 1953 the television broadcasting industries will require three or four times as many motion pictures as Hollywood is now turning out . . ." "These new movies, with many new stars especially suited for television, and produced to make the fullest use of the technical advantages, offers televsion not a threat, but a challenge to the motion picture industry. If it arises to the occasion, and I think it will television and motion pictures can provide our country with entertment and education on a scale never dreamed of before."

Rouben Mamoulian, who directed "Oklahoma," "Carousel," "Porgy and Bess" on Broadway, and many outstanding screen plays, on this same "Town Meeting of the Air" program stated: 'We're living in an age of miracles and television is one of the most exciting. . . . My opinion is, television will flourish as a fascinating medium of communication. It will vitally hurt and restrict the radio. It will not affect the motion picture adversely. . . Television has something the radio never had—visual imagery. It appeals both to the ear and the eye. The talking pictures by acquiring the extra dimension of sound displaced the silent films. Television acquires a much stronger new element — that of sight. And as the Chinese say, one picture is worth 5,000 words. . . . I think television will not harm the films, but rather depend upon them for its material. . . . So the motion pictures need not worry. It's not for nothing that the cry of the Roman people was for bread and the theatre. So long as civilization survives the theatre will live. As for television, it will expand and flourish; there is room for both."

"Television dominates radio's future," states Brigadier General David Sarnoff, President and Board Chairman of RCA, in a published interview from which the following is quoted:

"Progressive radio men—scientists, industrialists and broadcasters alike—now think in terms of both sound and sight; they plan in sound and sight. Television charts their future—it will be the dominant factor in the radio of tomorrow.

"Opportunities for television extend into many fields aside from the home. It has tremendous educational possibilities for schools, as well as for home extension courses. It brings the radio teacher into view, permits the use of demonstrations and illustrations and gives the blackboard a new dimension."

"Television programing, like the rest of the industry is booming," states the President of the Television Broadcasters Association, J. R. Roppele. "It is a mistake to think of television as full of unknown surprises. The major wrinkles were ironed out of it years ago."

Wayne Coy, Chairman of the Federal Communication Commission, states:

"Television, after crawling at a snails pace for many years, is now shooting ahead at supersonic speed. "In fostering the growth of Television, the Commission believes it is helping to bring to the American people the most powerful medium of mass communication ever conceived by the mind of man."

* * *

"In the past 12 months, television has grown faster than any other major industry ever to appear on the American horizon. And this growth has been sound and stable and has taken place in every phase of the business," stated R. C. Cosgrove, Executive Vice-President, Avco Manufacturing Co., in an address at the 20th Annual (Boston, Mass.) Conference on Distribution, Oct. 25, 1948.

"Our Avco Telecasting Station in Cincinnati is growing rapidly. At the same time, we are building additional stations in Dayton and Columbus and have applied for a permit in Indianapolis. It is not surprising then, to arrive at the conclusion that by 1953—less than five years from now—television, in all its ramifications, will be giving employment to one million persons, and will have injected an investment of at least $8 billion into the economic bloodstream of America."

* * *

"As a business, it bids fairly certain to assume billion-dollar proportions in another 12 months—the first 'post-war baby' to joint the industrial elite. On whatever basis it is judged. Television is decidely here." — New York "Times."

* * *

"Television will one day exceed sound broadcasting in its scope and its influence on our National Life," states Edgar Kobac, President of the Mutual Broadcasting System.

Conclusion

The executives quoted in this bulletin are not visionaries. Con-

versely they are outstanding leaders in their respective fields. Their opinions are accepted with respect and confidence in high places.

It is oft times difficult, if not imposible, to describe the economic potentialities of a scientific development without being accused of over emphasis—or "painting the lily" so to speak.

Such criticism accompanied early scientific development of the "telephone," "wireless," telegraphy, "moving pictures," the "horseless" carriage; out of which emerged the mammoth motor industry and "mass production" methods of production; radio and the airplane, which have converted the cosmic sphere into "one world"; the "atom bomb" with its frightful implications, and now, television straining on the leash of perfectionism.

The transition from mystery to established fact has enriched the world economically and socially. It has revolutionized life itself, produced countless organizations that provide income and pleasure for the masses and—many millionaires.

Under the leadership of such outstanding executives as quoted herein—and many others—the future growth of Television is assured, and with this broad growth, opportunities for profitable participation through careful selection of the securities of capably managed television organizations.

Again we quote Mark Woods, President of the American Broadcasting Co. on the Oct. 12 "Town Meeting of the Air Broadcast":

"In the future, I think that films are going to play a tremendous part in the development of television, and I am hopeful that through the cooperation of the motion picture industry, they can really enter a new and profitable enterprise. To the motion picture business, I say don't miss this challenge. Get in this industry."

Business Man's Bookshelf

Guaranteed Employment and Wage Plans—A Summary and Critique of the Latimer Report and Related Documents—William A. Berridge and Cedric Wolfe—American Enterprise Association, Inc., 4 East 41st Street, New York 17, N. Y.—Paper—50c.

Overseas Information Service of the United States Government—Charles A. H. Thomson—The Brookings Institution, Washington 6, D. C.—Cloth—$4.

Survey of Customs Unions—National Association of Manufacturers, 14 West 49th Street, New York 20, N. Y.—Paper.

Where Does Small Business Obtain Its Capital?—Oscar F. Litterer—Federal Reserve Bank of Minneapolis, Minneapolis, Minn.—Paper.

Bennett, Smith Co.

DETROIT, MICH.—Bennett, Smith & Co., Penobscot Building, members of the New York and Detroit Stock Exchanges, will admit Clara Troyanek to partnership on Jan. 3. Laurence P. Smith will retire from the firm on Dec. 31.

Louis A. Green, Director

Louis A. Green, Stryker & Brown, New York City, has been elected a director of the Atlantic Gulf & West Indies Steamship Lines.

Sees Pegged Bonds Counteracting Higher Reserve Requirements

(Continued from page 12)

ing government obligations from investors other than commercial banks. In that case the transaction results in an increase in deposits of the commercial banks, accompanied by an increase in reserve balances. As far as the Reserve Banks are concerned it leads in either case to an increase in member-bank reserves and in their holdings of government securities.

"Purchases of government securities by the Reserve Banks from others than commercial banks thus nullifies the effects of raising the reserve requirements for they supply the banks with the needed reserves and at the same time create new deposits. Because these purchases do not reduce the amount of government securities held by the member banks, the latter's potential source of reserves remains undiminished. Since during the last few months investors other than commercial banks have been the largest sellers of government securities, the higher reserve requirements absorbed the newly created excess reserve balances. Hence, so long as the Federal Reserve authorities consider it necessary to maintain orderly and stable conditions in the government securities market, raising reserve requirements does not decrease the availability of bank credit and the policy is ineffective except in that it may exercise a psychological influence on the lending and investing activities of the banks and lead to higher interest rates since a greater amount of the banks' resources will be tied up in nonearning reserves. Because the sale of government securities and the utilization of proceeds for making loans and acquiring obligations of political subdivisions and corporations means an exchange of riskless assets, if held to maturity, for assets involving risks in varying degrees, some banks will have to increase their capital funds in order to be able to absorb potential losses."

Concluding their analyses, the writers state:

"The policies of the monetary authorities are not formulated in a vacuum. They are determined by economic conditions, by changes in the volume of bank loans and investments, by commodity prices, and by the needs of the Treasury. The economic visibility in the United States during the last few months of 1948 has been low. It is impossible to state with any degree of accuracy whether the inflationary spiral of prices and wages will continue its upward movement or whether the forces of readjustment, which have become evident in a number of industries, will spread throughout the entire economy. To a large extent economic developments in the United States in the immediate future will depend upon total government expenditures in general and military and foreign aid expenditures in particular. Should these exceed considerably the current estimates, then the Treasury will either be forced to operate with a deficit or Congress will have to increase taxes. On the other hand, should expenditures for military and foreign aid purposes be limited, then the transition from the sellers' to a buyers' market will be broadened to affect more and more segments of the economy and the inflationary pressure will gradually disappear.

"The policies of the Reserve authorities will be guided to a large extent by the above-mentioned developments. Since the unsettled international political situation renders it almost impossible to estimate correctly the condition of the Treasury for even a few months ahead, it may be assumed that no change will be made in the present Federal Reserve policy regarding the support of the government bond market. Should the inflationary forces become aggrevated, the Board of Governors undoubtedly will ask and probably obtain new powers not alone over the member banks but over all commercial banks and possibly other institutional investors. On the other hand, should the forces of readjustment prevail, the Board of Governors probably will take measures to ease the money market in order to prevent even a moderate and desirable readjustment from regenerating into a serious recession. While the present policies of the Reserve authorities of maintaining the support prices on government bonds and at the same time raising the reserve requirements have been severely criticized as conflicting and consequently ineffective, a careful analysis of all factors involved leads to the conclusion that the monetary authorities by taking the lesser risks are discharging their duties in the best way possible under rather difficult conditions."

John H. Garrett Opening Own Offices in Zanesville

ZANESVILLE, OHIO—John H. Garrett has opened offices in the Masonic Temple Building to engage in a securities business. He was formerly an officer of Garrett-Talley, Inc.

With First Securities

(Special to THE FINANCIAL CHRONICLE)

DURHAM, N. C. — Harry M Boyd is with First Securities Corporation, 111 Corcoran Street.

With Hess & McFaul

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG. — Edward G. Daniel has been added to the staff of Hess & McFaul, American Bank Building.

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Golf & Tennis Winners at IBA Convention

The following are the winners in the golf and tennis tournaments at the Investment Bankers Association Convention held in Hollywood, Fla.:

GOLF

Women's Medal Play Tournament, Low Net: Mrs. Roy W. Doolittle (Doolittle & Co.), of Buffalo and Mrs. Thompson W. Wakeley (A. C. Allyn & Co.) of Chicago, tied. Mrs. Wakeley winner on the draw.

Women's Medal Play Tournament, Low Gross: Mrs. Sewell S. Watts, Jr., (Baker, Watts & Co.) of Baltimore; Mrs. Leonard J. Paidar (Goodbody & Co.), Chicago, runner-up.

Women's Blind Bogey Tournament: Mrs. Wm. S. Hughes (Wagenseller & Durst) of La. and Mrs. Allen C. Dubois of N. Y. tied; on draw Mrs. Hughes won 1st prize.

The Alden H. Little Trophy: Winner: Harry L. Walters, Girard Trust Co., Philadelphia. Runner-up: Joseph C. Houston, Jr. (Calvin Bullock), Chicago.

The Robert E. Christie, Jr., Memorial. Winner: Milton S. Trost (Stein Bros. & Boyce), Louisvile. Runner-up: James B. Winsor, 3rd (Biddle, Whelen & Co.), Philadelphia.

Investment Bankers Association of Canada Trophy: Clark Simonds, (G. H. Walker & Co.), Providence, and Samuel E. Varnedoe (Varnedoe, Chisholm & Co.), Savannah, tied. Mr. Varnedoe winner on the draw.

Men's Medal Play Tournament, Low Gross: Winner: Walter A. Schmidt (Schmidt, Poole & Co.), Phiadelphia. Runner-up: A. R. Hughes (Lord, Abbett & Co.), Chicago.

Men's Medal Play Tournament, Low Net: Winner: Allen C. Dubois (Wertheim & Co.,), New York.

Runners-up: Dana F. Baxter, (Hayden, Miller & Co.), Cleveland; Newman L. Dunne, (Robert W. Baird & Co.), Milwaukee; Elisha Riggs Jones (E. R. Jones & Co.), Baltimore; Elvin K. Popper (I. M. Simon & Co.), St. Louis; Maurice H. Sanderberg (A. G. Weltner & Co.), New York; Adolph E. Weltner (A. E. Weltner & Co.), Kansas City.

On draw Mr. Popper, winner.

Mixed Twosomes Tournament: Winners: Clark Simonds (G. H. Walker & Co. (Providence); Mrs. G. H. Walker of New York.

Runners-up: Frederick T. Seving (Butcher & Sherrerd), Philadelphia; Mrs. F. Brian Reuter (Mellon National Bank), Pittsburgh.

TENNIS

Men's Doubles: Malon Courts (Courts & Co.), Atlanta; and Benjamin Buttenweiser (Kuhn, Loeb & Co.), New York). Runners-up: Hugh Bullock (Calvin Bullock), New York and G. H. Walker, Jr. (G. H. Walker & Co.), New York.

Mixed Doubles: Mr. & Mrs. G. H. Walker, Jr. Runners-up: Mr. & Mrs. Hugh Bullock.

R. T. Reed Director

The election of Ralph T. Reed to the Board of Directors of Stone & Webster, Inc., is announced by Whitney Stone, President. Mr. Reed is President and a Director of the American Express Co. and Chairman of the Board of Wells Fargo & Co. He is also a director of the Amerex Holding Corp and of the American Woolen Co.

Robert T. Knight Opens

PITTSBURGH, PA.—Robert T. Knight is engaging in a securities business from offices in the Union Trust Building.

Reasons for Higher Rail Rates

(Continued from page 14)

the increasing total operating income while railroad rates remained unchanged. The sharp decline in total operating revenues in 1946 as compared with the immediately preceding years combined with substantial increases in wages and other costs was reflected in the lowest margin for the entire period shown with one exception (1920).

In 1947, although railroad gross revenues were greater than in any year prior to 1943, the **margin** of net railway operating income plus income taxes at 12.4% was one of the lowest for the entire period, despite the rate increases granted during that year. In other words, instead of the high ratio which would be anticipated during a period of prosperity, we find a very low ratio. For 1948, as a result of further rate increases and the full realization of increases granted late in 1947, the margin showed some improvement, before allowance is made for the new cost increases already assured. But, it is evident that the margin is still very low as compared with prosperous periods of the past.

This low margin or high break even point has great significance in terms of the future of this industry. Declines in total operating revenue, when they take place, are bound to be reflected in much sharper decreases in net railway operating income before taxes, as has been true in the past. This means that relatively small decreases in volume would reduce substantially or could wipe out the present inadequate profits. The inability of the railroad industry to obtain a normal margin during this period, contains the seeds for serious difficulties in the future.

In other industries, margins have not only been maintained but in some cases they have been increased. During periods of declining activity, many other industries are able to adjust their costs more rapidly to meet periods of adversity. In addition, their large earnings under today's boom conditions have made it possible to accumulate substantial undistributed profits which will provide a cushion for periods of adversity. In contrast, the railroads, which are subject to violent fluctuations, have not been able to accumulate surpluses at the same rate while their expansion and rehabilitation program has been using up their working capital. This has been true not only because of the low returns obtained but because of the delays between increases in rates and increasing costs.

Thus, the railroads are more vulnerable because of the decline in the margin and they will have less accumulated reserves to meet the difficulties which are engendered by that vulnerability than is the case in other industries. It has recently been pointed out in the **Survey of Current Business** of the U. S. Department of Commerce, that:

"Somewhat fewer than half of the 131 Class I railways are currently making regular dividend payments to stockholders. The number has increased since the war, since some of the roads which have come out of receivership or trusteeship have begun to pay dividends, **but the total amount paid out has moved fractionally lower.**"

"Recent dividend payments by railroad companies have been less than three-fifths as large as the average for the years 1925-29 **and the amount of retained net income has been running substantially lower than in the late twenties.** In contrast, for all industries combined **both** dividend payments and retained income are running above the level of the late Twenties." (May 1948, p. 20, italics added.)

It is imperative that a more satisfactory margin be restored for the railroads. When it is remembered that even the current low margin of profit is an overstatement of actual profits because no allowance is made for the higher cost of replacement attending current price levels, the dangers inherent in this situation become even clearer. This is true for all industries in which capital investment and replacement is important. However, there are few industries in which the necessity for continued replacements is as pronounced as for railroads.

Purchasing Power of Railroad Profits

It is frequently emphasized that the rise in prices has resulted in a reduction of purchasing power for the wage-earner. Of equal importance is the fact that this price rise also has meant a reduction in the purchasing power of the business dollar. This is particularly important to the railroads, which must continuously make additions and replacements to their plant—expenditures which are financed to some extent out of current earnings.

The years 1935-1939 represented a depressed period by any standard that may be used. On a national basis, unemployment ranged from 8 to 10 million people. Approximately one-third of the railroad mileage was in receivership. The average level of net railway operating income was less than half as large as during the late 20's and only moderately higher than in the years 1931 to 1934. (For example, for all corporations the profit in years 1936-39 was about the same as for the period 1922-39. For railroads, the 1936-39 average net railway operating income was $555 million, or 28% below the 1922-39 average of $772 million.) This evidence could be multiplied in other ways (e.g. price levels, industrial profits, business failures, etc.). The fact that real net railway operating income in 1947 and 1948 fell below the level prevailing in that depressed period is a sufficient commentary upon the present situation.

A Return of 6%

One other point may be noted in connection with these changes in prices and costs and their effect upon the purchasing power of business dollars. For years the emphasis has been placed upon the desirability of a return of 5½% to 6% as the legitimate objective for the railroads of this country. With prices more than 75% higher than in the prewar years, it is important to keep in mind that a 6% return today has the real purchasing power of about 3.5% before the war. As has been previously stated, even a major decline in prices is expected to leave the general price level in the near future substantially above the historic level. Thus, over the next few years, the attainment of the 5½% to 6% return would leave the industry with less **real** net railway operating income than such a return would have yielded in most of the years during the past half century.

Basically, the return on net worth reflects **earnings in current dollars** applied to **net worth based upon book costs.** These book costs involve original cost, which is usually substantially below present values. To the extent that this is true, it follows: that the return on the actual net worth is lower than suggested by the figures published. For example, if an industry with a book value net worth of $100 has current earnings of $10, a return on net worth of 10% is indicated. If the actual value of the net worth at today's prices was $200, then $10 of earnings would represent a return in today's markets of only 5%. If any one built a concern at today's prices, the cost of the plant would be $200 not the book cost of $100 shown by the old company.

It follows that if an attempt is to be made to compensate for the discrepancy created by use of book values based upon lower costs and current earnings, one of two alternatives is available. Book values can be revalued to the equivalent of current replacement values, or alternatively a higher rate of return can be applied to the book values as reported. In terms of the railroad situation, this means that a return of 6% could be applied to the replacement value of these properties, or a rate higher than 6% could be applied to the book values as reported. Either of these alternatives would make possible a return of 6% based upon current values.

It is recognized, of course, that there is little possibility that either of these alternatives will be adopted at this time. I have mentioned them in order to emphasize how conservative a return is represented by 6% upon the book investment in railway property after accrued depreciation. The investment in railway property after depreciation at the end of 1947 was $22.9 billion. A 6% return on this total would yield $1,374 million.

Since the attainment of this amount of net railway operating income would necessitate a rise in total operating revenues to above $10 billion, the ratio of net railway operating income to total revenues would be just about 13%. This is a lower ratio than in 27 out of the past 38 years and substantially below the ratio which has prevailed in past periods of prosperity. It would still leave the industry in a vulnerable position should any decline in operating revenues occur. The criticism to be directed at this objective, therefore, is that it is too modest, rather than that it represents an excessively high goal.

This is true for another reason. If the objective is to obtain an average return of 5½% to 6%, then it follows that in prosperous years the return should be above that target to provide an offset to the inevitable declines below that average in poorer years. The granting of the present demand would yield the average return, not one above average. By that fact, it assures that the average return over a period of years would be substantially below 5½% to 6% of a property account based on original cost.

CHART I

TOTAL OPERATING REVENUES AND PER CENT OF FEDERAL INCOME TAXES AND NET RAILWAY OPERATING INCOME TO TOTAL REVENUES

RAILWAYS OF CLASS I IN THE UNITED STATES

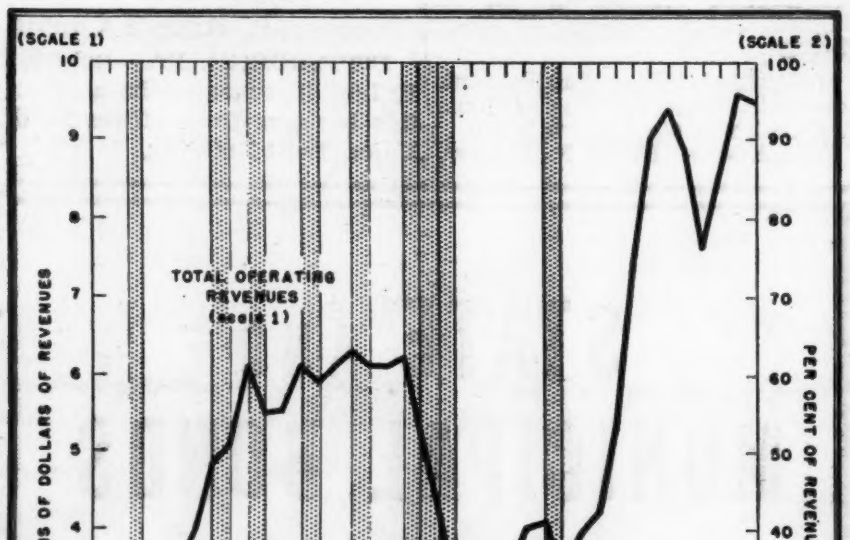
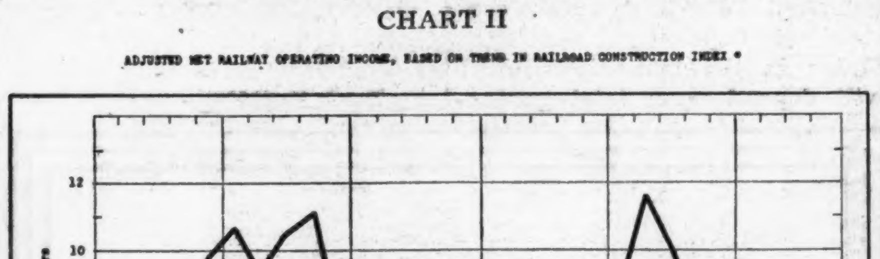


CHART II



Young & Gersten Forming in New York

Young & Gersten is being formed with offices at 40 Exchange Place, New York City, to

T. R. Young Henry B. Gersten

engage in a securities business. Partners are T. R. Young and Henry B. Gersten. Mr. Young was a partner in Young, Aal & Golkin. Mr. Gersten was manager of the arbitrage department for Hettleman & Co. Both are members of the Security Traders Association of New York.

Tony Bottari Is Now With Kaiser & Co.

SAN FRANCISCO, CALIF.—Tony Bottari has become associated with Kaiser & Co., Russ

Tony Bottari

Building, members of the San Francisco Stock Exchange. Mr. Bottari was previously with Wm. R. Staats Co. and Blair & Co. In the past he was trading manager for Sutro & Co.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

S. B. Blumenthal & Co. will dissolve Dec. 31.

Dunham & Fletcher retired as an Exchange member firm on Dec. 15.

Rowland Stebbins, limited partner in DeCoppet & Doremus, died Dec. 12.

Kutch & Co. will dissolve on Dec. 31.

Louis F. Branch will withdraw from partnership in A. E. Masten & Co. on Jan. 3.

Daniel T. Lehane, member of the Stock Exchange, will withdraw from partnership in McDonnell & Co. Dec. 31.

Harry Simon will withdraw from partnership in Ungerleider & Co. Dec. 31.

Frederic Winthrop, Jr., limited partner, will retire from H. C. Wainwright & Co. Jan. 1.

Endicott J. King will retire from partnership in Walston, Hoffman & Goodwin Dec. 31.

William D. Winchell of Buffalo, a general partner in Goodbody & Co., will become a general and limited partner Jan. 1.

Richard L. Morris, general partner, will become a limited partner in Hayden, Stone & Co., effective Jan. 1.

Robert Struthers, general partner in Wood, Struthers & Co., will become a limited partner effective Dec. 31.

We Are Not Winning Against Communism

(Continued from page 16)

followers. They are cold, cynical realists, unswayed by emotion.

Second, there is the intellectual communist. He may be utterly sincere in a faith that communism is all it claims to be. He may, in fact, believe completely that communism is the sheltering arm for the hopeless and the despairing. He is infatuated with the theoretical Utopia he calls communism.

Third, there is the man-against-the-world communist. He may have a personal grievance against the old order; racial discrimination or the childhood memory of injustice to himself or to his family may prompt his conversion. Or, again, he may be merely frustrated by his own inability to move ahead in a democratic world. He may believe that communism will give him the miracle of rebirth.

Fourth, there is the emotionally immature communist. He may be snared by the communist appeal for a brotherhood of man. He may see it as the only way for him to help reform the world. It is possible he revels in the conspiratorial aspect of communism. Or he may simply have gulped the story that communism will inevitably rule the world, and he wants to be on the winning side. Caught young, this type of communist often falls away from the faith as he matures, learns to think for himself and understands that he was duped by false slogans and false promises.

Fifth, there is the stomach communist. He turns to communism in sheer desperation. The fine points of communist ideology mean little or nothing to him. Saving the world means little or nothing to him either. He wants to save himself. He is hungry. The democracy he has known seems to have failed him, and the new and more resounding promises of communism ring loud in ears which belong to a starving body.

Communism dangles before the man who has nothing at all, the promise of a plot of land—a share in a factory—any material inducement he may want. It was with such glittering and gaudy pledges for the future that communism made marked headway in Italy. In Italy there are more than two million card-carrying communists today—more than in any other country outside of Russia itself—and eight million persons, one out of every three Italian voters, cast communist ballots in the last election.

The great rank and file of communists and communist sympathizers in the non-communist world today come in this fifth type — the stomach communist. The worker level is the arena where the main event of Democracy vs. Communism is being fought.

Can Russia Create Communism?

Russia cannot create the conditions in which communism takes root. She can aggravate them and take advantage of them. She does. She exploits them to the utmost through her ideological warfare with democracy. Everywhere you look, communist techniques twist and turn and back and fill in the hunt for the best chances to stab at the existing order and needle it for its failures and inequities.

It's important to keep in mind that basic communist dogma remains fixed, and so do its objectives. But its methods and approaches are as shifty as the footwork of a skilled boxer.

Just as communism plays on the varying susceptibilities of different kinds of individuals, its approach may vary from country to country.

Collectivization of the land is a fundamental dogma of communist ideology, but look at the different tactical approaches on this problem in Italy and France.

In Italy where farm land is held in huge estates, the communists promise to break up and distribute the holdings among the people.

In France, where there is wide diffusion of land ownership, the communists have submerged propaganda about land division and have concentrated on the injustices and hardships of industrial workers.

Capitalizing on the injustices of established systems is the negative side of the communist technique. On the more positive side, Russia is trying to buy people with the promise of a better tomorrow for themselves and their children. Communism offers a mixed bouquet of blandishments and beguilements. It has something for everybody in its promises of a materialistic Utopia. It is going to end war, it says; and all depressions, all want, all injustice, all inequalities. It will cure every ill of the world—down to and including rheumatism, dandruff and the common cold.

But her propaganda salesmen skillfully whitewash the hardships, sufferings and injustices in Russia in the last 30 years and in the satellite countries in the last few years.

We may laugh at the communist promises and call them absurd and preposterous, but there are millions of people who don't laugh at them. They accept them and believe them.

Let's quit laughing, and start thinking and acting wisely. The ability of communism to use the grievances of the masses as ladders to power is a deadly serious thing. It converts its ideology to power, then entrenches that power irreversibly by police state methods. No country thus far has thrown off communism once it has come into power, because the secret ballot goes out when the secret police come in.

Ideological warfare is a highfalutin' phrase in American ears, but call it what we will, we must meet it head-on. We must meet it with a positive ideology of our own. Communism is selling our weaknesses: we should be able to sell some of our strengths. And the sooner we overcome our weaknesses the more powerful story we'll have to tell.

Selling Democratic Ideology

What is the democratic ideology? What are we selling and what ought we be selling? What I think we ought to be selling is simply this: that the individual is the most precious thing on earth.

That's the cardinal democratic concept. Everything else is subsidiary to it. If all the world really believed in it and gave reality to it, all the things which communism rails against would gradually disappear.

How could there be war if all people set a precious value on life itself?

How could there be injustice and discrimination if the individual is more important than all other things?

How could there be class struggle in a society wherein each man respected the inherent rights and dignity of the other?

How could men anywhere be denied the right to choose freely the type of political, social and economic order he desires if man is a sovereign being?

But we can't expect the hungry masses of the world to buy the concept of democracy when the stomach does the thinking for the mind. The bargain counter days for democracy are at an end. In the market places of the world today, it is no longer enough to spread out the wares of democracy and sit behind the counter with folded and complacent hands. We get no customers and make no converts that way against the high pressure salesmanship of communism which peddles its bag of promises from door to door. In the world struggle of ideologies today, this is a buyers' market.

Task of Building up a Democratic World

Performance and works are the best tools we can employ to combat communism and build up democracy. But the democratic world is sicker than we thought. The task of helping it to its feet is more formidable than we thought.

The enormity and magnitude of the task is just coming to light as our vast program of mutual aid to improve living standards around the world begins to unfold. We are finding more economic and political and moral decay than we expected. Wherever this decay exists, it must be rooted out.

We voted billions for mutual aid for two purposes: first, for relief—to fulfill man's immediate and urgent need for the necessities of life—and second, for reconstruction.

We would be cheating the American taxpayer if the money went only for relief and not for reconstruction. We would be betraying the cause of democracy if this money were used to perpetuate injustice and inequality—to make the rich richer and the poor poorer.

Our economic recovery program is one answer to stomach communism. Necessary as it is, we can't depend on ECA alone. Other measures must be taken. I'd like to suggest some.

The world needs a monumental program of industrialzation. That's true in South America, true in China, true anywhere you look around the world. The next decade will inevitably see industrialization surging vigorously ahead at a sharply accelerated pace. We can give it an upward push in many areas, and in our self-interest we should do so.

To undertake and underwrite a program of world-wide industrialization on a business-like basis is a part of our responsibility. Industrialization is always the key way to lift living standards.

Why is this so? Because industrialization increases output per manhour and this is the only way that living standards can be raised.

A Global Program

The program I suggest means organizing on a global scale to utilize fully all the world's natural and human resources. It means organizing for recovery, for reclamation, for intelligent land use, and for the proper flow of capital.

To do these things, I should like to see us set up a permanent World Economic Development Corporation. This would mean a fusion of government funds and the capital of private enterprise.

Such a program would involve a permanent budget item for us—an item accepted as a necessity, just as we accept the permanent budget item for our armed services. Both are security measures. One is prevention; the other protection.

Hand in hand with a development corporation, I propose a

(Continued on page 68)

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Securities Salesman's Corner

By JOHN DUTTON

The problem of prospecting is always with us. How to expose ourselves to more people who are qualified investors? How to meet new prospects on an advantageous basis? How to gain attention? How to get before the right people to tell our story? Here is a new approach—CAN YOU TALK ON YOUR FEET ABOUT YOUR BUSINESS? Can you stand up and tell others about it in an interesting way for half an hour? If you think you can, then how about this—here is what happened to one investment dealer that tried it.

He belonged to a club composed of about 400 members. He was active in its affairs. One evening at a meeting of the board of directors, before they got down to business, one of his fellow members asked him what he thought about the stock market. He spoke for a moment and the things he said seemed to register. He noticed that the others had stopped talking and were listening to his remarks. He cut it short and the meeting went on. But as a result of these few remarks he was asked to make an address before an open meeting of the club on "Investment Policy."

This club is composed of professional and business men. They are interested in knowing more about "sound investment"; they are men that have possibilities of development into customers. The manner in which he presents his ideas, the way be builds up this subject of investment has possibilities for the creation of new accounts. Here is a new field of prospecting wide open to investment men all over the country.

How about your town? There are Rotary Clubs, Lions, Men's Clubs in the churches, Chambers of Commerce, Fraternal Orders, Women's organizations by the hundreds. Can you talk on your feet, can you make it interesting? The subject is teeming with possibilities. What to talk about—how about this?

Why we have a Wall Street—the Corporation—what are the functions of our business—supplying capital—creating markets—how to invest successfully—how to plan an investment program—how to pick a growth situation—why tips and hunches seldom work—the new Wall Street—how we try to help our clients to do a better job by supplying facts and services—our vast sources of information which we have available today—why we don't have to ask our clients to guess when they can get the facts—the list is endless. WE HAVE A WONDERFUL BUSINESS TODAY—SO FEW PEOPLE KNOW HOW EFFICIENT AND HARD WORKING ARE MOST OF THE PEOPLE WHO ARE ENGAGED IN THE SECURITIES BUSINESS. A short talk along these lines could build good will for you—make you known in your town—help you to obtain new clients. If you can talk on your feet about this business of ours in an OBJECTIVE MANNER, and MEANWHILE INDIRECTLY SHOW OTHERS BY WHAT YOU SAY, THAT YOU KNOW YOUR JOB, this method of building a business has much to recommend it. HERE YOU ARE PROSPECTING with a TWELVE FOOT RAKE.

How to go about it? Why not offer your services to some club? Pick an interesting subject—where there will be no possibility of anyone thinking that you are out for a direct grab for business. Investment Policy—The New Wall Street—How to Invest More Successfully?—What Is Behind the Stock Market?—These are the things people want to know about today. Make no mistake about it—people want to know more about investment—ABOUT MAKING MONEY. The trouble is we haven't told them. What an opportunity there is for the INVESTMENT DEALERS of this country to sell our business to the public and meanwhile sell themselves. Why haven't we done so? What is holding us back? Look at this and ask yourself, HAVE WE DONE A GOOD JOB?

Out of the 48,400,000 spending units in

THE UNITED STATES:

39% owned checking accounts
45% owned their own house or farm
46% owned savings accounts
48% owned U. S. Government Bonds
78% owned life insurance

BUT ONLY

9% owned stocks or bonds, exclusively of U. S. governments.*

*"Sales Management," November 1948.

Have we got a market? What do you think? Why not be the first one in your town to start telling your friends and neighbors about this great business we have and how they too can live better by becoming investors in American Industry. Is there anything, anywhere, that is a better investment? What do you think?

We Are Not Winning Against Communism

(Continued from page 67)

vast extension of "partnership capitalism." Partnership capitalism means American private capital and business genius in partnership with the capital, the manpower and the resources of other countries. Its purpose is a mutual and cooperative development of industry and commerce among nations. In this way, America makes available to the world one of its greatest assets—the American capitalist with his dollars and techniques. While government aid and partnership capitalism are entirely different in approach, they complement each other in their ultimate objectives.

Does this sound staggering in scope? Yes, it does. But so are the stakes. Among history's many fateful hours, this one will transcend for generations. This is no petty crossroads in the winding trails of time. This is a moment when the whole civilized world wavers between a life of living death or a better life than it has ever known.

The swirling revolutions in human pressures and in science—the turbulence of hungry masses newly conscious of political power—the woeful shortage of industrial tools and skills—the mutual fears and doubt among even friendly nations—all these combine to make the biggest human traffic jam in history.

Circumstances have landed us in the middle of it and handed us the whistle.

Should this task frighten us? I say it shouldn't.

What could we possibly lack in capacity to lead the world along the way to peace without war and freedom without want except faith in ourselves?

It is not immodest to say that no other nation was so richly endowed for world leadership. It's a simple fact that we were never so powerfully equipped.

Faith in ourselves is all we could possibly lack. Faith in ourselves founded this nation; it kept it together and molded it when we were still a thin little coastal country; faith built our continental civilization. We were a daring people, a reckless people, a determined people, a courageous people—and all these things we are today. But no one of them or all together is enough without the simple and essential faith that the concept of democracy—the divine principle of man's sovereignty — cannot long be challenged, and in the end must triumph and prevail.

In this rededication to faith we can look to our men and women in education perhaps more than to any other single group in America. You have the great capacity to inspire faith in others.

With faith in ourselves and faith in each other, we cannot know fear nor let discouragement distract us from our chosen road. In such faith, this should be for us an exalting time, a morning hour and a time for reveille. This is a time for trumpets to resound to the uttermost parts of the earth: to rally men everywhere who believe in the righteousness of freedom and the nobility of man, who believe in man's destiny to live freely and fully, with the fruits of the earth to be his.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Firm to advancing prices, with increased volume give a constructive tone to the government bond market. . . . Operations appear to be largely monopolized by commercial and savings banks with dealers coming into their own as activity expands. . . . The movement from shorts into longs seems to be making more headway with savings banks now letting out the near-term maturities to take on higher yielding tap issues. . . . There appears to be more confidence in the market that prices of eligible Treasuries will tend to gradually improve, because of the better demand from deposit institutions. . . .

The 2¼s due 1956/59 have been well taken with the demand widespread. . . . The longest taxable bank issue is also under accumulation, with the better prices due in part to the easing of the pressure of selling by savings banks, which seem to be about through with their switches out of this bond. . . . In the tap issues there has been interest in all of the bonds, with the 2¼s coming in for buying from some of the savings banks. . . .

GOOD DEMAND SEEN

More money market followers are going over to the side of those who believe that the postwar rise in interest rates has reached peak levels. . . . It is being pointed out that capital expenditures for industry as a whole are likely to decline next year, while working capital requirements will probably decrease with stable or receding commodity prices. . . . Housing, according to indications, will require less funds in 1949 than was the case this year. . . . This would mean less demand for mortgage money, which absorbed the lion's share of savings in 1948. . . . Commercial loans appear to be slowing down, but a definite reversal of the up-trend is looked for in the not distant future. . . .

With the supply of investable funds still very substantial, and not as many outlets into which it can be channelled, there should be an easier tone in the money markets, which should be reflected in a better demand for government securities. . . .

MONEY RATES

If the demand for funds is to decline in 1949, as many now believe, then any further rise in short-term money rates would seem to be out of the question. . . . The 1¼% certificate rate should hold and reserve requirements should not be increased because there would not be that need to tighten the money markets in order to restrict inflationary forces, which would be passing with the lessened demand for funds. . . . The pressure to sell government securities to get funds that would be used to finance industrial expansion would also be eliminated and this should virtually mean the end of liquidation of securities by non-bank investors. . . . Commercial banks with a lessened demand for loans and no fear of higher reserve requirements would not only cease to be sellers of Treasuries but might turn out to be sizable buyers because of the need to maintain income. . . .

Easier money market conditions, it is believed in some quarters, would also result in no demands being made by the monetary authorities for greater power over the money markets and the institutions that operate in it. . . . The opinion on future legislation, however, are about evenly divided since there are many who support the belief that new controls will be asked for and obtained so that the powers that be will be in a position to meet whatever conditions that might arise in the future. . . . Legislation to bring non-bank investors under regulation of the authorities is believed to be among the most likely to be obtained. . . .

TREND REVERSAL

With the movement on, which many believe will take us from an allocation economy to a competitive economy, there is developing a changed attitude in the government bond market. . . . The fear of pegged prices not holding is disappearing. . . . As a matter of fact, as quotations move away from support levels, the talk is not about floors being maintained but how far will Federal let prices advance? . . . Then there is the question in the minds of bank investors as to how many of the longs should be bought now and should more of the shorts be sold to make way for larger commitments in the distant maturities? . . .

Under competitive economic conditions and with the inflationary pressure relieved, the money markets might even display some softness, which would mean that present positions in the eligible issues would be very solid. . . . This time the only important seller would be Federal, which would be a reversal of the position that the Central Banks have been in recently. . . .

SMALL BANKS ACTIVE

The decline in demand for mortgage money, which has been rather pronounced in some sections of the country, according to reports, is bringing buying into the eligible 2½s due 1967/72. . . . Demand is steady, although the size of individual buying orders that have been appearing has not been large. . . . This would seem to indicate that the accumulating institutions for the most part are smaller deposit banks, which have not been too active in this bond of late.

Centralizing Stock Exchange Organizations

(Continued from page 7)

my host—the Senior Margin Clerks' Division. Up to recently membership in your hard-working and useful organization has been limited to Senior Margin Clerks in the New York Stock Exchange firms. Now that membership is open to those who handle the same responsibilities in member firms of the New York Curb Exchange and other exchanges, I believe that you have made a wides and constructive amendment which will enlarge not only your membership, but the area within which you can assist and influence the securities business.

Securities Business Scattered Among Many

We are each an active part of a most remarkable business. I know of no business which contains so high a percentage of honest, able and individual human beings. The individual, independent, self-dependent character of the people in our business must not be overlooked. It is a fundamental condition of our business that it remain broken up into hundreds, perhaps thousands, of relatively small businesses scattered through all the Main Streets of our country and in foreign lands.

Without the independence of judgment and the conflict of opinion which are the natural products of thousands of small business organizations, I don't believe the securities business would be properly organized, or rather decentralized, so as to perform its function of service agent to the free capital markets. We know that no firm and no small group of individuals or firms can exert any collective opinion which will substantially affect the trend of values in the open market.

So long as our business is organized, or perhaps I should say disorganized, as it is the free market will remain free.

But these individualistic, small business virtues of our securities industry would make a chaotic Tower of Babel of our business, if some over-all organizations were not voluntarily accepted by the thousands of otherwise independent parts. There are several such centralizing organizations. There are, for instance, the New York Stock Exchange and the New York Curb Exchange—each one merely a very large partnership in which hundreds of individuals have joined to obtain common facilities which they all need and to impose uniform standards of conduct and business methods which all respect.

There are the various Regional Stock Exchanges, your Association of Stock Exchange Firms, the Investment Bankers Association, the National Association of Securities Dealers and many other centralizing agencies. Each one serves in its own field to tie together the thousands of small independent firms and individual enterprises which carry the real responsibility and which actually do the job that is known as the Securities Industry.

Need of Centralized Authority

We all know that this balance between widely dispersed judgment and authority to decide and act, on the one hand, and centralized authority to impose order on the other, is the right kind of balance for our kind of business. We know we must keep this balance.

But today it seems to me that it is of great importance to the over-all health of our business, and of our country, that closer association be developed between those central agencies which give direction to the different parts of our business.

By opening your membership to all Senior Margin Clerks in all firms of all recognized stock exchanges, you have taken a good, long stride toward bringing the similar but scattered parts of our business together. You have also added one more bridge to the many that now join the New York Stock Exchange, the Association and the New York Curb Exchange together.

Our mutual interests were already very great. A few indications of the extent of these mutual interests are easily presented: 60% of the regular and associate members of the Curb are partners in Stock Exchange firms; 80% of our Regular Member Firms and 93% of our Associate Member Firms are Stock Exchange Member Firms as well. In the matter of Stock Exchange listings, it is interesting to remember that about 45% of the issues now dealt in on the Stock Exchange were transferred to it from the Curb and about 56% of all new shares listed by the Stock Exchange in the last 15 years came from the Curb. Yet the Curb has maintained and, in fact, increased the average percentage of its volume of transactions to the total volume of the two exchanges during those 15 years.

All of these indicia of mutual interest make for strong bonds, both ways, between these three great central organizations in our business. Your action is to be commended for providing an additional link.

Beyond the areas of our three organizations lies the work of still other organizations in our business to which we are also, although more loosely, joined by mutual interest. It is my hope that as the years go by, the avenues of association between all of the central organizations of our business may be broadened and the traffic on them increased. That is an objective to aim at along with the equally important objective of retaining the independence and the individuality of each part and each association in the industry.

Reduced Profits Means Government Revenue Loss: Odlum

(Continued from page 6)

cumstances, a further tax directly on corporate earnings might be avoided, thus making more certain for employees some further participation in national income with greater assurance of its stability when obtained.

It was Cardinal Richelieu, I believe, who told King Louis of France that the purpose of any tax measure was to get the most feathers with the least squawk. I think I have improved on the Cardinal by actually growing more feathers. I have tried to remember my arithmetic which tells me that a lesser percent of more is oftentimes greater than a larger percent of less. And I am not unmindful of the reasonableness as applied to individual stockholders of the old saying in reverse, that is to say, if there is nothing to gain there will be nothing risked.

All people, including the economists of our Commerce Department, admit that more risk capital is necessary and the problem of raising it is important. I think if we are realistic about it, we can make 2 and 2 add up to 4 rather than to 3 as at present. In consequence, we should be able to see continued expansion and activity ahead.

IBA GROUP CHAIRMEN

MISSISSIPPI VAL'Y

Walter J. Creely
Goldman, Sachs & Co., St. Louis

TEXAS

Robert E. Moroney
Moroney, Beissner & Co., Houston

SOUTHWESTERN

Russell E. Siefert
Stern Brothers & Co., Kansas City, Mo.

Ernest B. Torgler With Buckley Brothers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Ernest R. Torgler has become associated with Buckley Brothers, 530 West Sixth Street. Mr. Torgler was previously with Dempsey-Tegeler & Co. and First California Company.

J. Parmelee Petrone Opens

ORANGE, N. J. — J. Parmelee Petrone is engaging in a securities business from offices at 367 Alden Street.

S. Korner in NYC

S. Korner is engaging in a securities business from offices at 320 East 57th Street, New York City.

With Lester & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Harry F. Wagner, Jr., has become affiliated with Lester & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with C. E. Abbett & Co.

With H. H. Butterfield Co.

(Special to THE FINANCIAL CHRONICLE)

JACKSON, MICH.—Paul R. Whitman is with H. H. Butterfield & Co., Jackson City Bank & Trust Building.

With Johnson, Lane, Space

(Special to THE FINANCIAL CHRONICLE)

SAVANNAH, GA.—James M. McNair has joined the staff of Johnson, Lane, Space & Co., Bay and Drayton Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Blue chips continue to lose favor while secondaries gain it. Consider second group better situated for immediate future.

Little has happened since the previous column was written to make much of a story here or in any other stock market column. The news continues mixed with higher and lower tax proponents getting their versions into print.

* * *

The market, taking its cue from the news, continues to be one of those affairs that open at 10 and close at 3. In between there is a lot of talk in customers rooms about coming events and what the market will do about them.

* * *

During the past week, the statement made here that the leaders remain leaders only in name, and that the actual leadership is gradually being taken over by the secondaries, is gradually proving itself. You can see that in the action of such stocks as Big Steel, General Motors and others of equal calibre. Conversely, other stocks, the so-called "gambles" continued to hold their own.

* * *

The subject of good and bad stocks has always been a controversial one. Basically a stock which has paid dividends for a long time, has acquired respectability and with it widely accepted intrinsic values and is considered a "safe stock." Conversely, stocks of companies which have recently come to life, pay minor dividends and have no record of longevity, are considered questionable, to put it mildly.

* * *

But it is because the first class has attained respectability that it usually has lost its incentive. And this incentive lack is a reflection of its management.

* * *

The new, or comparatively unseasoned issues, reflect new enterprises, or companies with developments that the older ones, having achieved respectability, wouldn't engage in any longer. To that extent such stocks are theoretically gambles. But because they're gambles they frequently bring the buyer considerably larger profits.

* * *

By the same taken where large profit potential exists, loss possibilities are equally great. The pendulum swings both ways.

* * *

We are now facing a new year. Most everybody expects higher taxes. That there is increased buyer resistance isn't a secret. It has been many a long year since stores ran sales Christmas week. All these point to changes. What these will be I don't know. But I do know that with what I think I see I wouldn't want to be long on a list of blue chips. I'd rather buy stocks in industries which are already depressed, e. g. movies, or in industries which haven't gone through any booms. If I couldn't do that I'd stay liquid.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

The State of Trade and Industry

(Continued from page 5)

of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 88.6% of capacity for the week beginning Dec. 20, 1948, as against 100.0% in the preceding week, representing a decrease of 11.4 points, or 11.4%. A month ago the indicated rate was 99.2%.

The decline is due to the fact that most steel mills will not operate Saturday, which is Christmas Day.

This week's operating rate is equivalent to 1,597,000 tons of steel ingots and castings compared to 1,802,500 tons a week ago, 1,788,100 tons a month ago and 1,515,490 tons, or 86.6% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT ESTABLISHES FRESH ALL-TIME RECORD IN WEEK ENDED DEC. 16

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 16 was 5,790,191,000 kwh., according to the Edison Electric Institute. This was an increase of 85,368,000 kwh. above output in the preceding week and 422,567,000 kwh., or 7.9% higher than the figure reported for the week ended Dec. 20, 1947. It was also 849,738,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS FALL 8.3% BELOW 1947 WEEK

Loadings of revenue freight for the week ended Dec. 11, 1948, totaled 783,276 cars, according to the Association of American Railroads. This was a decrease of 20,907 cars, or 2.6% below the preceding week this year. It also represented a decrease of 70,883 cars, or 8.3% under the corresponding week in 1947 and 45,475 cars, or 5.5% below the similar period in 1946.

AUTO OUTPUT AGAIN BREAKS THROUGH TO SET A NEW POSTWAR HIGH IN LATEST WEEK

Production of cars and trucks in the United States and Canada rose to 125,452 units from 124,041 (revised) units the previous week, according to "Ward's Automotive Reports."

The fire at Ford's Rouge plant, which idled the Ford and Mercury assembly lines on Wednesday of last week, knocked about 1,000 units from the week's total, Ward's said. Hudson reached its best volume since the war, and Packard continued at its peak postwar rate, the agency added.

Output in the similar period a year ago was 120,667 units and in the like week of 1941, 65,875 units.

This week's output consisted of 93,793 cars and 25,389 trucks built in the United States and 4,046 cars and 2,224 trucks in Canada.

BUSINESS FAILURES DROP FURTHER IN LATEST WEEK

Commercial and industrial failures decreased to 96 in the week ended Dec. 16 from 122 in the preceding week, Dun & Bradstreet, Inc., reports. Casualties slightly exceeded the 91 in the corresponding 1947 week and were considerably more numerous than the 27 in 1946. They compared with 249 in the same week of 1939.

Failures involving liabilities of $5,000 or more declined to 77, the same as a year ago, from 112 last week, while casualties with liabilities under $5,000 rose to 19 from 10 and exceeded the 1947 total of 14.

The Middle Atlantic and East South Central States failures were higher in the preceding week, while in the East North Central, Pacific and New England States they showed a decline.

FOOD PRICE INDEX OFF SHARPLY TO RECORD NEW LOW LEVEL FOR 18 MONTHS

There was a further general recession in food prices last week. With 19 of the 31 items included in the Dun & Bradstreet wholesale food price index moving lower against only 3 advances, the index dropped sharply to $6.21 on Dec. 14, and from $6.33 a week earlier. This represented a decrease of 1.9% in the week, and brought the current index to a new low level for 18 months, or since June 10, 1947, when it stood at $6.12. The latest index showed a drop of 11.5% from $7.02 recorded a year ago at this time.

COMMODITY PRICE INDEX INFLUENCED BY FOODS STRIKES NEW YEAR LOW IN LATEST WEEK

Led mostly by foods, the general level of prices moved steadily downward during the past week to reach a new low for the year. The Dun & Bradstreet daily wholesale commodity price index registered 268.20 on Dec. 14, down from 271.12 a week previous, and comparing with 302.36 on the like date a year ago.

Grain markets as a whole developed a weaker tone, particularly towards the latter part of the week. Trading volume in futures on the Chicago Board of Trade declined rather sharply despite persistent liquidation by holders of December grain contracts.

The cash wheat market was quiet with prices sharply lower, reflecting heavy country and warehouse offerings.

Corn lacked support and is selling well below the government loan price. Continued buying of both wheat and corn helped to hold the decline in check and caused small rallies at times. Cash oats were in poor demand with prices easier.

The condition of the new winter wheat crop was reported generally satisfactory with adequate moisture in most parts of the main belt. Although government buying of flour continued in good volume, trading in the domestic flour market was extremely cautious, with demand confined mostly to small lots for nearby shipment.

Spot butter prices at New York were off 1¼ cents a pound, reflecting increased offerings and moderately heavy receipts. The market for eggs was weak and unsettled; prices were sharply lower for the week under heavier receipts. Liberal offerings and lagging demand resulted in a further decline of 1½ cents in the actual cocoa market. Manufacturers were still hesitant in making commitments, reportedly due to a disappointing demand for their products. Coffee was inactive and lower early in the week but displayed a firmer tone at the close. Hog marketings continued in large volume, and with further weakness in wholesale pork prices, live hogs showed a further drop to the lowest levels of the season. Steers were also in liberal supply and prices worked downward as did prices for dressed beef.

Spot cotton markets fluctuated irregularly within a narrow range and closed the week on an easier tone following the announcement by the Department of Agriculture that farm commodities controlled by the government can be sold at prices below parity after Jan. 1.

Reported sales in the ten spot markets increased moderately during the week but entries of the staple into the government loan declined for the second successive week. Total entries for the week ended Dec. 2 were 253,553 bales, against 267,264 the previous week, and 368,064 two weeks ago. The Dec. 1 estimate of the Crop Reporting Board placed the 1948 crop at 14,937,000 bales, or slightly below the forecast a month ago.

Business in the Boston raw wool market was slow and spotty. There was good demand for scoured wools but supplies were scarce. Little interest was shown in staple woolen wools. Foreign wool markets remained strong and active.

RETAIL AND WHOLESALE TRADE CONTINUES TO GAIN STIMULATED BY HOLIDAY PURCHASES

As holiday gift shopping gained momentum in most parts of the country, moderate to large increases were reported last week. Total dollar volume slightly surpassed that of the comparable week a year ago, states Dun & Bradstreet, Inc., in its current survey of trade.

Selective shoppers responded favorably to many clearance sales and holiday promotions. Moderately priced goods of good quality were very popular.

Retail apparel volume rose fractionally the past week. While women's and men's suits and coats sold in a slightly smaller volume than the week previous, accessories and haberdashery were purchased in a very large volume. The demand for blouses, sweaters, lingerie, gloves and hosiery increased seasonally. Shoppers purchased more ties, pajamas and shirts than in preceding weeks. Consumer interest in sportcoats and slacks rose. Men's heavy overcoats continued to decline in sales volume.

Consumers bought slightly less food than in the previous week with meat purchases in fractionally decreased volume. Housewives continued to request the moderately priced cuts. Meat and butter substitutes were in large demand. The interest in fresh fruit and vegetables rose slightly and bakers' goods were sold in a substantial volume. Holiday packages of candy, cookies and fruit were popular.

While the demand for large furniture pieces declined last week, shoppers' interest in occasional furniture rose moderately. The sales volume of chinaware, cutlery and general household goods increased sharply. Clearance sales of small appliances and radios were reported in many localities and shoppers' interest in major appliances dipped.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from unchanged to 4% above a year ago.

Regional estimates varied from the corresponding 1947 levels by the following percentages: New England down 3 to up 1, East and Southwest unchanged to up 4, South up 1 to up 5, Midwest up 2 to up 6, Northwest unchanged to up 3, and Pacific Coast down 2 to up 2.

With moderate declines in wholesale order volume in some sections and increases in others, total dollar vloume in the week continued close to the high level of recent weeks. It was about even with that of the similar week a year ago. Re-orders of small gift and novelty goods were numerous. The number of buyers attending many wholesale markets declined seasonally to about two-thirds of the number in the previous week, but moderately exceeded the number in the comparable week last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 11, 1948, decreased by 1% from the like period of last year. This compared with a decrease of 5% (revised figures) recorded in the preceding week. For the four weeks ended Dec. 11, 1948, sales decreased by 4% and for the year to date increased by 5%.

Retail trade in New York the past week advanced with sales volume reflecting a gain over last year for the first time during the present Christmas period. The increase was small, being estimated for department stores at 3%.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 11, 1948, declined by 6% from the same period last year. In the preceding week a like drop was registered over the similar week of 1947. For the four weeks ended Dec. 11, 1948, a decline of 6% was recorded over that of last year and for the year to date volume increased by 3%.

News About Banks and Bankers

(Continued from page 16)

banks will be consolidated and will consist of 30 members. In order to keep the board with the maximum limit of 30 members, three trustees retired, one from the Bowery and two from the North River. The expressed intention of the Board is that the President of the Bowery will continue as President and Chairman of the Board of the consolidated banks, which will be known as The Bowery Savings Bank. Harris Dunn will occupy the office of Vice-Chairman. Earl B. Schwulst, Executive Vice-President of The Bowery Savings Bank, will retain that position until Mr. Bruere relinquishes the office of President which he expects to do in July next, remaining as Chairman of the Board and Chief Executive Officer. Mr. Schwulst, it is expected, will then become President and Chief Administrative Officer. Mr. Dunn will continue under this plan as Vice-Chairman of the Board, Robert W. Sparks will be First Vice-President, and P. Raymond Haulenbeek will be Administrative Vice-President. The Bank after the merger will have four offices, three being those of the present Bowery Savings Bank—110 East 42nd Street, 34th Street and 5th Avenue, and 130 Bowery—and the fourth the present sole office of the North River at 34th and 33rd Streets just west of 7th Avenue.

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At the Ninth Annual Banquet of the Twenty-Five Year Club of **Manufacturers Trust Company, New York**, held at the Roosevelt Hotel, the following officers were elected for the coming year: Charles Frederick, President; Edward J. Colbert, Vice-President; Carl Funk, Secretary-Treasurer. Harvey D. Gibson, President of Manufacturers Trust Company and honorary member of the Club, addressed the gathering and presented service plaques to 49 employees who became members this year, bringing the total membership in the club to 349.

* * *

Instead of the usual Christmas desk pad or calendar, **Colonial Trust Company of New York** has sent, as a Yuletide remembrance to its correspondent banks abroad, bi-lingual dictionaries in English and in the language of each recipient. English-Spanish dictionaries have also been sent correspondent banks in the Southwest, where such banks conduct a considerable volume of business with clients in Mexico and other Latin American countries. The dictionaries were sent to 350 correspondents in 24 countries.

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At a regular meeting of the Executive Committee of the Board of **City Bank Farmers Trust Company of New York** held on Dec. 21, Alfred H. Howell was appointed Assistant Trust Officer.

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Announcement of the sale of 1,000 shares of the stock of the **First National Bank of New York** was made on Dec. 21 by the First Boston Corporation. The selling price was $1,170 per share to yield 6.84%.

* * *

It is announced by Harvey L. Schwamm, President of the **National Bronx Bank of New York**, that the directors have voted to transfer $250,000 to surplus account by charging a like amount against undivided profits, thereby increasing the surplus account to $1,500,000.

* * *

Herman Ringe, a founder and President of the **Ridgewood Savings Bank of the Borough of Queens, New York**, died on Dec. 13. Mr. Ringe had been President of the bank since 1944. He also founded the real estate firm of Herman Ringe & Son and was its President at the time of his death.

The directors of the **Worcester County Trust Company of Worcester, Mass.**, at a special meeting on Dec. 15 voted to buy assets and assume deposit and certain other liabilities of the **Southbridge National Bank of Southbridge, Mass.**, in accordance with an agreement also approved on Dec. 15 by the directors of the bank. The transaction is subject to the approval of the stockholders of the Southbridge National Bank and of the State and Federal banking authorities. The sale price, it is announced, will be based upon the valuation of the assets on the proposed take-over date, Jan. 15, 1949. Edward E. Williams, President of the Southbridge National Bank, stated that a special stockholders' meeting will be held on Jan. 11 to act on the transaction. William D. Ireland, President of the Worcester County Trust Co., said that it is planned to conduct the business of the bank as the Southbridge office of the Trust company. He also stated that the present directors of the bank would continue as an Advisory Committee of the Trust company and that all the officers and personnel of the bank would be retained. The Southbridge National Bank was organized in 1836 and has total deposits of approximately $8,300,000. As of Dec. 1, 1948, Worcester County Trust Co. deposits totaled over $76,000,000, and after the assumption of the deposits of the bank deposits, it is stated, will total over $84,000,000 with total resources over $91,000,000, exclusive of assets held in the trust department which exceed $74,000,000. The Trust company now operates offices in Fitchburg, Barre, North Brookfield and Spencer, and four offices in the City of Worcester. It is the oldest trust company in Massachusetts, dating from 1804.

* * *

Appointment of Richard E. Harris as Assistant Trust Officer of **National Newark & Essex Banking Co. of Newark, N. J.**, has been announced by Robert G. Cowan, President, it was stated in the Newark "News" of Dec. 19. Mr. Harris joined the staff of the bank in 1932 and has been identified with the trust department since 1940.

* * *

The **Union Trust Company of Maryland in Baltimore** announced on Dec. 14 that Howard M. Michel, former Assistant Secretary and Assistant Treasurer, was elected an Assistant Vice-President, and Frederick M. Knieriem, Assistant Trust Officer, was made a Trust Officer. The Baltimore "Sun" of Dec. 15, in reporting this, also said that Bernard R. Bond was appointed Assistant Manager of the foreign department.

* * *

A merger of the **Liberty Trust Company and the Peoples Bank of Cumberland, Md.**, which is expected to become effective at the end of the year, will result in an institution with resources of more than $21,000,000, according to J. S. Armstrong, Financial Editor of the Baltimore "Sun" of Dec. 18. His advices state that both banks have formally approved the plans, and he further says in part:

"The combined capital accounts of the merged bank, which will bear the name of Liberty Trust Company, will approximate $1,400,000. Charles A. Piper, President of Liberty Trust, will continue as President and active head of the combined bank. Under the plan of merger, shareholders of each bank will receive 2.1428 shares of the stock of $10 par of the merged institution for each share owned by them in the Liberty Trust Company and Peoples Bank."

* * *

At their annual meeting on Jan. 19, the stockholders of the **Cleveland Trust Company of Cleveland, Ohio**, will act on the question of increasing the capital stock of the institution from $13,800,000 to $15,000,000. Associated Press advices from Cleveland state that President George Gund indicates that the action by the stockholders is in furtherance of the purpose of having additional stock available for payment of a stock dividend. If the increase is authorized, it is expected that the stock dividend will be made payable Feb. 15 to stock of record Feb. 1. It will be in the ratio of one share of new stock for each 11½ shares of old.

* * *

Harmen B. Flinkers, a statistician in the **Federal Reserve Bank of Cleveland's** bank examining department, was elected a member of the Retirement System's Board of Trustees by the District's 1,792 employees at Cleveland, Pittsburgh and Cincinnati, it is learned from the Cleveland "Plain Dealer" of Dec. 9, which also said:

"The Board of Trustees administers a fund now totaling $87,000,000. President Ray M. Gidney is the other trustee from the bank here. The board has 26 members, two being from the Board of Governors of the Federal Reserve System in Washington."

* * *

Recommendation has been made of a stock dividend by directors of the **Detroit Bank of Detroit, Mich.**, according to the Detroit "Free Press" of Dec. 17, which states that the distribution will be made on the basis of one share for each nine shares held, the bank said. Payments will be made Feb. 15 to holders of record Jan. 11. The issuance, it is added, will carry the bank's common shares to 250,000 and establish capital stock at $5,000,000 at par value of $20 a share.

* * *

The election of Gregory B. Schaefer as a Vice-President of the **State Bank of Milwaukee** was announced on Dec. 17 by President F. A. Ross, following a board meeting. Mr. Schaefer, says the Milwaukee "Journal," who has been associated with the bank since 1935, was advanced from Assistant Vice-President.

* * *

The Manitowoc Savings Bank of Manitowoc, Wis., will acquire, effective Dec. 31, all the assets of the **Manitowoc National Bank** and assume all liabilities of the latter bank, it is reported in special advices from Manitowoc to the Milwaukee "Journal" of Dec. 19, which goes on to say that announcement of the combination was made on Dec. 18 by President Henry Schuette of the savings bank and President Guido Rahr of the National Bank. It is further stated:

"Assets of the two banks total $23,500,000 and deposits exceed $22,300,000. All operations will be combined under the management and name of Manitowoc Savings bank, although separate facilities will be maintained. There will be no changes in bank personnel. The savings bank was founded in 1884 by the late John Schuette, grandfather of President Henry Schuette."

* * *

Robert A. Alston, Trust Officer of the **Citizens & Southern National Bank of Atlanta, Ga.**, has been elected Vice-President and Trust Officer, Mills B. Lane, Jr., President, announced on Dec. 16 following a meeting of the board of directors. The Atlanta "Constitution" of Dec. 17, from which we quote, states that Mr. Alston, who joined the bank in April, 1947, was a member of the legal department of the Reconstruction Finance Corporation, where he became Chief Examiner in the loan administration.

* * *

Charles C. Simons was on Dec. 9 promoted to Vice-President in charge of the banks and bankers department of the **American Trust Company of San Francisco**, James K. Lochead, President, announced, according to the San Francisco "Chronicle."

* * *

Allan E. Arscott, C.B.E., has been elected Chairman of the board of directors of the Canadian Bank of Commerce, succeeding

Allan E. Arscott

Stanley M. Wedd

S. H. Logan, who retired after 52 years of active service, 23 years of which were spent as an executive officer of the bank. Mr. Logan will remain a director of the bank. Mr. Arscott has been President of the bank since December, 1944, and has been associated with the institution for 43 years. Stanley M. Wedd, Executive Vice-President since December, 1947, was elected President, succeeding Mr. Arscott. Mr. Wedd also has been associated with the bank for 43 years.

IBA GROUP CHAIRMEN

MICHIGAN

Gerald E. Miller
Miller, Kenower & Co., Detroit

SOUTHERN

J. W. Means
Courts & Co., Atlanta

W. PENNSYLVANIA

George G. Applegate
George G. Applegate, Pittsburgh

Aiken, Snedicor Join Dempsey-Tegeler & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Jared C. Aiken and Howard T. Snedicor have become associated with Dempsey-Tegeler & Co., 210 West Seventh Street. Mr. Aiken was formerly with Morgan & Co. Mr. Snedicor was with Fairman & Co. and H. R. Baker & Co.

Herbert T. McHenry With Shields & Company

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Herbert T. McHenry has become associated with Shields & Co., 210 West Seventh Street. Mr. McHenry was formerly with Salomon Bros. & Hutzler in Chicago. In the past he was with Banks, Huntley & Co. of Los Angeles.

With L. J. Vetter & Co.

(Special to THE FINANCIAL CHRONICLE)

SANTA BARBARA, CALIF.—Philip H. Augerson is now associated with L. J. Vetter & Co., 1028 State Street. In the past he was with Sutro & Co.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Thomas S. V. Waitt formerly with J. A. Hogle & Co., is now affiliated with Merrill Lynch, Pierce, Fenner & Beane, 454 North Camden Drive.

Are Profits Under Competition Ever Too High?

(Continued from page 10)

market most of the time since Pearl Harbor. Dollars have been competing for goods instead of goods competing for dollars. We are emerging from that era. Soft spots are now occurring and more will come.

You ask if anything should be done about the profits of 1948 and you imply the question: Who should do it?

We regard this as a fact-of-life question. We respect you for having the courage to ask it and we would deserve less than your respect if we did not answer with all the candor and force at our command. First, something is already being done about the profits of 1948. The consumers have, for some time, been doing something about it. In those industries where a high-priced supply has more than caught up with demand, the laws of competition are at work.

Stability of World Conditions A Remedy

We believe that inflated prices where they exist, and inflated profits where they exist, are directly related to, and will not be solved until, some semblance of peace and stability descends upon the earth. Most Americans are prepared now to accept the interdependency that they have one upon another. We perhaps have been a little slow to accept the equally inevitable fact: that the interest of the American consumer, investor, worker, and the American Government itself are all interrelated with the problem of world peace. We believe that as long as we are required by the troubled international situation to maintain a huge military budget, as long as we spend more and more money on goods for economic recovery in other areas of the world, inflated price and profit levels are apt to remain with us in a few fields.

This is an attempt to answer a very thorny question. We think that the nation can be gratified at President Truman's evident intention to restrain government expenditure within the limits of national safety. We are gratified at this policy because the welfare of the average American citizen can best be served by careful retreat from current high levels of government expenditure.

Now Harbison & Henderson

LOS ANGELES, CALIF.—The firm name of Harbison & Gregory, 210 West Seventh Street, members of the Los Angeles Stock Exchange, has been changed to Harbison & Henderson.

Indications of Business Current Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Dec. 26	88.6	100.0	99.2	86.6
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 26	1,597,000	1,802,500	1,788,100	1,515,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Dec. 11	5,620,150	5,615,150	5,626,400	5,252,739
Crude runs to stills—daily average (bbls.)	Dec. 11	†5,650,000	5,698,000	5,712,000	5,104,000
Gasoline output (bbls.)	Dec. 11	18,395,000	18,216,000	17,811,000	15,705,000
Kerosene output (bbls.)	Dec. 11	2,506,000	2,490,000	2,665,000	2,485,000
Gas oil and distillate fuel oil output (bbls.)	Dec. 11	7,553,000	7,269,000	7,669,000	6,337,000
Residual fuel oil output (bbls.)	Dec. 11	8,946,000	8,897,000	8,964,000	8,580,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 11	97,110,000	95,235,000	91,795,000	87,608,000
Kerosene (bbls.) at	Dec. 11	25,512,000	26,537,000	26,528,000	18,127,000
Gas oil and distillate fuel oil (bbls.) at	Dec. 11	82,406,000	83,993,000	83,979,000	55,032,000
Residual fuel oil (bbls.) at	Dec. 11	86,406,000	86,381,000	83,659,000	53,318,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 11	783,276	804,183	871,677	854,159
Revenue freight rec'd from connections (number of cars)	Dec. 11	673,346	642,663	702,860	729,219
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 16	$146,187,000	$83,693,000	$123,240,000	$130,139,000
Private construction	Dec. 16	44,038,000	30,500,000	59,946,000	69,218,000
Public construction	Dec. 16	102,149,000	53,193,000	63,294,000	60,921,000
State and municipal	Dec. 16	70,255,000	46,968,000	49,093,000	32,424,000
Federal	Dec. 16	31,894,000	6,225,000	14,201,000	28,497,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 11	11,900,000	*11,485,000	12,065,000	13,408,000
Pennsylvania anthracite (tons)	Dec. 11	946,000	1,137,000	1,151,000	1,202,000
Beehive coke (tons)	Dec. 11	153,500	*151,400	144,900	146,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 11	564	485	346	570
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 18	5,790,191	5,704,823	5,626,900	5,367,624
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 16	96	122	126	91
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 14	3.75628c	3.75628c	3.75628c	3.19541c
Pig iron (per gross ton)	Dec. 14	$46.82	$46.82	$46.82	$37.00
Scrap steel (per gross ton)	Dec. 14	$43.00	$43.00	$43.00	$39.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 15	23.200c	23.200c	23.200c	21.200c
Export refinery at	Dec. 15	23.425c	23.425c	23.425c	21.450c
Straits tin (New York) at	Dec. 15	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Dec. 15	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Dec. 15	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Dec. 15	17.500c	17.500c	17.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 21	100.95	100.84	100.87	[illegible]
Average corporate	Dec. 21	111.44	111.25	111.25	111.07
Aaa	Dec. 21	117.40	117.00	116.61	116.22
Aa	Dec. 21	115.43	115.24	115.04	114.46
A	Dec. 21	110.15	109.97	110.15	110.15
Baa	Dec. 21	103.64	103.47	103.80	103.97
Railroad Group	Dec. 21	106.74	106.39	106.56	105.34
Public Utilities Group	Dec. 21	112.00	111.62	111.62	113.12
Industrials Group	Dec. 21	116.02	115.82	115.63	115.24
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 21	2.43	2.44	2.44	2.37
Average corporate	Dec. 21	3.09	3.10	3.10	3.11
Aaa	Dec. 21	2.78	2.80	2.82	2.84
Aa	Dec. 21	2.88	2.89	2.90	2.93
A	Dec. 21	3.16	3.17	3.16	3.16
Baa	Dec. 21	3.53	3.54	3.52	3.51
Railroad Group	Dec. 21	3.35	3.37	3.36	3.43
Public Utilities Group	Dec. 21	3.06	3.08	3.08	3.00
Industrials Group	Dec. 21	2.85	2.86	2.87	2.89
MOODY'S COMMODITY INDEX	Dec. 21	393.5	392.0	400.4	456.9
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Dec. 18	225.6	227.5	231.9	236.8
Fats and oils	Dec. 18	192.6	205.7	210.9	266.0
Farm products	Dec. 18	243.3	244.3	249.1	275.8
Cotton	Dec. 18	304.3	294.9	299.9	336.7
Grains	Dec. 18	207.7	210.2	210.0	312.7
Livestock	Dec. 18	247.1	250.0	256.7	263.6
Fuels	Dec. 18	242.3	242.3	242.3	198.2
Miscellaneous commodities	Dec. 18	172.7	172.1	172.1	179.2
Textiles	Dec. 18	195.4	194.1	194.4	226.2
Metals	Dec. 18	190.6	190.6	190.5	159.3
Building materials	Dec. 18	225.9	225.9	229.0	236.7
Chemicals and drugs	Dec. 18	149.7	149.7	151.4	156.4
Fertilizer materials	Dec. 18	142.8	142.9	142.5	135.6
Fertilizers	Dec. 18	150.8	150.1	150.1	141.8
Farm machinery	Dec. 18	153.7	153.7	151.3	129.3
All groups combined	Dec. 18	216.9	217.6	219.3	220.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 11	201,641	218,071	167,198	162,012
Production (tons)	Dec. 11	198,237	190,868	190,406	183,345
Percentage of activity	Dec. 11	96	93	96	100
Unfilled orders (tons) at	Dec. 11	363,813	362,854	394,769	444,685
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Dec. 17	143.5	144.3	144.4	150.1
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Dec. 14	163.0	163.7	164.3	162.6
Farm products	Dec. 14	174.0	175.5	175.2	196.4
Foods	Dec. 14	172.6	173.7	177.5	178.2
All commodities other than farm and foods	Dec. 14	153.1	153.4	153.2	145.1
Textile products	Dec. 14	145.7	146.1	147.0	147.5
Fuel & lighting materials	Dec. 14	136.9	136.9	136.8	122.9
Metals & metal products	Dec. 14	173.8	173.8	173.1	151.0
Building materials	Dec. 14	203.2	203.2	202.4	190.8
All other	Dec. 14	133.7	134.5	134.5	138.1
Special indexes—					
Grains	Dec. 14	170.1	173.3	172.7	255.7
Livestock	Dec. 14	219.8	227.6	225.4	235.8
Meats	Dec. 14	230.9	235.4	239.1	227.9
Hides and skins	Dec. 14	199.3	206.3	206.2	258.0

*Revised figure. †Includes 404,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN TRUCKING ASSOCIATION— Month of October:			
Number of motor carriers reporting	300	*300	300
Volume of freight transported (tons)	3,086,513	*3,021,131	3,031,937
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of November (in thousands)	$102,887,000	$107,141,000	$92,910,000
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of November:			
Manufacturing number	129	112	124
Wholesale number	55	69	26
Retail number	208	188	115
Construction number	37	40	25
Commercial service number	31	52	23
Total number	460	461	313
Manufacturing liabilities	$15,933,000	$14,160,000	$12,574,000
Wholesale liabilities	2,690,000	2,139,000	1,198,000
Retail liabilities	3,456,000	5,917,000	1,531,000
Construction liabilities	955,000	1,135,000	537,000
Commercial service liabilities	1,382,000	77,709,000	505,000
Total liabilities	$24,416,000	$101,060,000	$16,345,000
BUSINESS INVENTORIES, DEPT. OF COMMERCE—Month of Oct. (millions of $):			
Manufacturing	$30,800	$30,651	$27,397
Wholesale	8,400	8,245	7,342
Retail	15,200	14,595	13,099
Total	$54,400	$53,491	$47,837
COAL EXPORTS (BUREAU OF MINES) — Month of October.			
U. S. exports of Pennsylvania anthracite (net tons)	642,129	692,169	829,725
To North and Central America (net tons)	492,659	541,886	448,288
To South America (net tons)	------	------	1,219
To Europe (net tons)	139,308	150,283	370,172
To Asia (net tons)	10,162	------	10,044
To Africa (net tons)	------	------	2
COAL OUTPUT (BUREAU OF MINES)—Month of November:			
Bituminous coal and lignite (net tons)	48,485,000	*51,350,000	52,689,000
Pennsylvania anthracite (net tons)	4,681,000	4,961,000	4,629,000
Beehive coke (net tons)	624,600	*618,300	559,600
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—			
As of November 30 (in millions)	$287,000	$285,000	$287,000
COTTON SEED — DEPT. OF COMMERCE —			
Received at mills (tons) Aug. 1 to Nov. 30	4,171,898	3,196,661	3,098,207
Crushed (tons) Aug. 1 to Nov. 30	2,124,956	1,414,364	1,688,575
Stocks (tons) Nov. 30	2,129,379	1,871,377	1,509,160
COTTON SEED PRODUCTS—DEPT. OF COMMERCE—			
Crude Oil—			
Stocks (pounds) Nov. 30	141,085,000	97,778,000	110,229,000
Produced (pounds) Aug. 1 to Nov. 30	666,487,000	438,531,000	514,707,000
Shipped (pounds) Aug. 1 to Nov. 30	622,973,000	401,421,000	463,708,000
Refined Oil—			
Stocks (pounds) Nov. 30	120,774,000	83,053,000	132,055,000
Produced (pounds) Aug. 1 to Nov. 30	500,491,000	322,667,000	385,415,000
Cake and Meal—			
Stocks (tons) Nov. 30	78,427	80,246	70,183
Produced (tons) Aug. 1 to Nov. 30	963,339	640,767	779,821
Shipped (tons) Aug. 1 to Nov. 30	968,318	643,927	756,579
Hulls—			
Stocks (tons) Nov. 30	74,606	70,796	70,040
Produced (tons) Aug. 1 to Nov. 30	484,534	322,680	382,379
Shipped (tons) Aug. 1 to Nov. 30	451,895	293,851	348,147
Linters—running bales—			
Stocks Nov. 30	179,331	170,842	169,757
Produced Aug. 1 to Nov. 30	663,667	444,187	526,988
Shipped Aug. 1 to Nov. 30	583,616	372,625	436,975
Hull Fiber (500-lb. bales)—			
Stocks Nov. 30	1,655	1,938	1,856
Produced Aug. 1 to Nov. 30	13,138	9,139	6,770
Shipped Aug. 1 to Nov. 30	11,694	7,412	5,215
Motes, grabbots, etc. (500-lb. bales)—			
Stocks Nov. 30	17,215	14,465	17,463
Produced Aug. 1 to Nov. 30	20,412	13,875	12,813
Shipped Aug. 1 to Nov. 30	17,287	13,500	15,163
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments, month of Oct.:			
Aluminum (thousands of pounds)	35,542	35,877	40,532
Copper (thousands of pounds)	91,311	86,973	92,119
Magnesium (thousands of pounds)	708	745	616
Zinc (thousands of pounds)	38,407	36,720	38,612
Lead die (thousands of pounds)	1,366	1,420	1,393
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100—As of Nov. 15:			
Unadjusted—			
All farm products	271	277	287
Crops	224	227	268
Food grain	234	226	312
Feed grain and hay	181	192	283
Feed grain	189	204	324
Tobacco	412	418	354
Cotton	246	251	257
Fruit	157	174	151
Truck crops	186	176	272
Oil-bearing crops	283	270	349
Livestock and products	313	323	304
Meat animals	351	373	338
Dairy products	284	289	293
Poultry and eggs	272	260	242
Seasonally adjusted—			
Fruit	172	182	167
Truck crops	204	229	307
Dairy products	265	276	273
Poultry and eggs	243	236	214
SOFTWOOD PLYWOOD (DEPT. OF COMMERCE) — Month of October:			
Production (M sq. ft. 3/8-in. equivalent)	184,860	181,567	170,769
Shipments and consumption (M sq. feet, 3/8-in. equivalent)	179,673	174,857	162,059
Stocks (M sq. ft. 3/8-in. equivalent) at end of month	57,700	54,082	43,973
Consumption of logs (M ft., log scale)	84,937	78,008	74,289
Stocks (M ft., log scale) at end of month	353,443	308,522	222,569
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of November:			
Net sales	$800,000	------	$220,961,000
Net purchases	------	$120,000	------
TRUCK TRAILERS (DEPT. OF COMMERCE)— Month of October:			
Production (number of units)	3,725	3,594	3,962
Shipments (number of units)	3,853	3,746	4,605
Shipments (value in dollars)	$11,982,830	$11,306,032	$11,952,284

*Revised figure.

What Stocks to Own in 1949

(Continued from page 2)

level in the Dow-Jones industrials. The high was 195. This supposedly was to be followed by a reaction or consolidation. The high of the year—close to or above the 1946 high of 213—was to be reached in the later part of 1948. The reaction came along according to schedule, but, unless the market has the sharpest upward move ever recorded, the averages are going to fall far short of reaching the 1946 high of 213 by the end of the year.

This failure of prediction on my part was at least partially due to the unexpected turn of the tide in the Presidential election. However, the way the technical pattern has been working out since mid-Summer, I doubt if Mr. Truman's election made any great difference in the ultimate destination of the market other than in the timing of the relatively minor trend of the next few months. If the inflationary factor of increased government spending continues, there will be higher taxes and some partial government controls. This probably would have been true even had Mr. Dewey been elected. If, as is more probable, the deflationary factors become more predominant, there would seem to be little sense for increased taxes or controls. Either one or the other will happen. It seems rather illogical to fear both at the same time.

Whether inflationary or deflationary factors will become dominant is open to question. In either event, the effect on earnings should be about the same. It would appear that earnings, after taxes, will be 20% to 33⅓% lower in 1949 than in 1948. If, in the present market, prices were selling at anywhere near normal price - to - earnings ratios, this would result in a sharply lower price level. For example, if a company were earning $15 for 1948 and paying out 60% in dividends or $9, and selling at 150 to yield 6%, it would seem logical to expect a sharp drop in price in the event that the earnings declined to $10 and the dividend were cut to $5. However, under present market conditions, while the stock is earning $15 it is only paying $5 in dividends and selling at 75. A drop of 33½% in earnings to $10 would not necessarily have any effect on either the dividend or the price. In fact, from a psychological viewpoint, the reverse may be true. The market has failed to move ahead on increased earnings because, for the last two years, the investing public has been fearing a recession in business and felt that present earnings were only temporary. When business does drop off moderately (competent authorities look for no more than a dip to 175 in the FRB index which is now around 195) the fear psychosis will be removed and the market may then look ahead to the next upswing in the business picture. In that event, the price-to-earnings ratio will be much higher than is prevalent today.

Low Prices to Come in Early 1949

To sum up, I again predict that the market will reach its low point for 1949 in the first three months of the year. I do not believe the low will be much, if any, lower than the Nov., 1948, low of 171, and that it will certainly be above 160. I am still of the opinion that the range of the last 28 months, between 160 and 195 in the industrial average, is an accumulation area and will eventually result in a price level somewhere around 240-250. This fundamental pattern has not been changed by the results of the election. It has, however, been delayed. The market during the latter part of 1949 should approach or pass the 1946 highs of 213 and be on the way to the aforementioned level.

I think, furthermore, that subject to interruptions such as you may get in 1949, we are going to have a high level of business for the next eight to ten years. There is a historical precedent for this. Certainly it has happened after every major war. It happened after the Civil War. It happened after the first World War, and it undoubtedly, in my opinion, will happen after World War II.

There will, of course, be periods of interruption and adjustment. But I think the supply and demand potential today is much greater than it was, let us say, in 1920 or 1921.

It is possible that there will be piecemeal adjustments as each sector of industry, one by one, readjusts and returns to a normal pattern. This has already happened in many industries. Certainly, the shortages and demands built up by four years of war and by ten years of depression are not going to be satisfied by the last three years of peak production, large as that production may be. This becomes even more unlikely when we consider the growth in population over the last 20 years, and the greatly increased incomes of a vast segment of our people, thus greatly enlarging the mass buying power.

Another thing, I think our debt situation is quite different than it was 20 or 30 years ago, or even after the Civil War. The debt that we had in 1921 was practically the same, proportionately, as the debt we had after the Civil War. Today, I do not think that is quite the situation; and so I think that prices not only of commodities but of many other things are on a higher plateau. The scale is different. I mean, if a five-year-old boy should walk in here this moment and we decided to measure his height, and through using a yardstick that had been changed to a scale where a foot was no longer 12 inches but was six inches, the boy would be eight feet tall. It would appear that the height of the child was all out of proportion. That isn't the picture. The height of the boy is normal in relation to the changed scale of the yardstick.

I think that is true in our entire economy today. I don't mean by that that we are in a new era like that envisioned in 1929. Certainly not in the stock market with brokers' loans less than half a billion as against eight billion in 1929. It is quite different from the situation in 1929 when the turnover of the listed stocks on the New York Stock Exchange was 130% of the national income, and today the turnover is about 4% of the national income. This last figure shows the possibilities of growth, I think, in the financial field.

Why are prices low today? Stock market prices in relation to earnings and dividends are extremely low. I think there are a number of reasons and the most obvious reason, of course, is our present tax laws. The majority opinion is that there is going to be very little change in the tax laws in 1949. I think that is a pretty safe statement, but when you go beyond that and say that in our present Democratic administration there will never be a change in the tax laws, I don't believe that is quite true.

I think you might look into some of the recent statements of the SEC relative to the taxation question and quite a number of other things pertaining to our financial business. You would be amazed to know that the SEC has a lot more faith in our business than some of us have who are in it.

Low Prices Partially Fault of Securities Industry

Another reason why stock prices are low, I think, is partially the fault of the investment business, the broker's, and the whole financial field. I would say roughly that most of us are about 20 years behind the times in our public relations. We are operating on the same basis as we were in 1929 and 1930 and 1931. We have forgotten, I think, that there has been a tremendous change in this country in the last 10 or 15 years. A great many people don't realize it. We are still trying to approach the same people in the same way for risk capital. Strangely enough, those same people haven't got the same money that they had 10 or 15 years ago. There is an entirely new segment of our population who have investing funds and we don't do anything about interesting them in the investment and speculative possibilities in today's low prices.

Today there are 15 million to 20 million potential customers for securities that were not here in the 1930s. There are 15 or 20 million potential customers for television sets and automobiles and houses that were not here in the 1930s.

Now, whether you are an advocate of New Deal policies or not, something has happened in the last 15 years, and you have to realize that it has. I mean the people that we should be out trying to sell today are the farmers and laborers and small businessmen of the North and the West and the South, and everywhere else; and they are the people who, in my opinion, are the potential customers of tomorrow. We have a tremendous mass market here that is going to mean a great deal to us in the future.

And that is another reason why you are not going to have a serious slump or fall off in business. One day last week I went through one of the poorer sections of a nearby city and I noticed that four out of every 10 homes had a television aerial. Those people were living in the houses that they were living in—why? Not because they wanted to, but because they couldn't get new homes. So when you say that residential housing may slow up temporarily this year on account of high prices, it may possibly be true, but there still is behind it all a potential demand, which, in my opinion, is going to take a lot more than two or three years to satisfy.

While we haven't been doing a good job, let us say, in the brokerage investment field, I might draw your attention to open-end investment trusts. In glancing through the financial statement of one of your local investment companies, I discovered that, from its inception somewhere in the early 1930s, the investment fund had increased some 3,000%. I also discovered that in the last few years the funds had increased 800%. In other words, they are selling to the smaller investors, and I think many of us in our own businesses will have to change our operations a bit and pay some heed to this important new element.

Stock Market Phases

I believe that the stock market in May, 1942, started a long upward war price cycle, similar to that of 1914-1929. Such long-term price cycles usually have five phases—three of advance and two of decline. The first phase was the advance from 93 in the Dow-Jones industrials in May, 1942, to 213 in May, 1946. The second, or declining phase, was the drop from 213 to 160 in May, 1947. This area was again tested in February of this year. We are now in the third phase—a period of advance. This third, or advancing phase, will be comparatively moderate and selective with the better-grade, well-managed companies leading the advance. The ultimate objective, interrupted by intermediate corrections, will be around 250 in the Dow-Jones industrials, with 5% leeway on either side.

Ever since October, 1946, I have advised buying selected issues whenever the averages enter the 170-160 buying range, and I shall continue to do so.

Every bull market we have had in the last 50 years has shown a price appreciation of more than the approximately 55% advance from a low of 160 to the indicated 240 or 250; so while sometimes there are gasps of astonishment at an upside objective of 240 and 250, it really is a relatively moderate raise.

The fourth or declining phase should culminate in the early 1950s. The fifth, or final advancing phase will be an upsurge carrying into the middle 1950s. This will be the dynamic upswing with over-speculation and heavy public participation. The pattern is not complete as regards the ultimate price objective for this final advancing phase, but the Dow-Jones industrials should sell above the 1929 high of 386.

The objectives of 250 for the present phase, and above 1929 highs for the ultimate advance, seem fantastic now, but only because of the present depressed mental state. Percentagewise, the advances are quite in line with the moves of the market over the past 60 years. It must be remembered that this country is still in a long-term upward growth channel. My prediction may eventually turn out to be quite conservative.

Prospects of Individual Stocks

Let us now discuss individual stocks, which is the topic of our meeting. What groups or what individual stocks will be most profitable to own in 1949?

The 1949 advance will be selective and will not include all groups. After selecting the best groups, the issue is further complicated by the fact that many issues in the group show quite diverse patterns. This, of course, has also been true in the past, but this extreme selectivity is even more evidence today.

As an example, I advised switching Anaconda Copper into Phelps Dodge, at the same price two years ago. These are both stocks in the copper group. Of course, the background is different, but they are still copper stocks. Today Anaconda is selling at 34, approximately two or three points away from its low. On the other hand, Phelps Dodge which in 1946 actually sold, I believe, two points lower than Anaconda,

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IBA GROUP CHAIRMEN

SOUTHEASTERN

James H. Lemon
Johnston, Lemon & Co., Wash., D. C.

GROUP CHAIRMEN'S COMMITTEE

Thomas Whiteside
Chace, Whiteside, Warren & Sears, Boston

What Stocks to Own in 1949

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has been as high as 59, and even today is selling at 53.

So, there is going to be a great deal of selectivity, not only in groups but also in individual stocks within each group. The groups that have bearish patterns—there aren't too many of them—indicate that they have not much chance of any great rise in 1949, but I don't believe they are going to have too much of a decline. If there is any decline indicated, it is fairly moderate.

Rail Stocks Price Appreciaition Possibilities

In my opinion, the group that shows the best possibilities for price appreciation, and that is what I am interested in, is the railroad group. I don't think you will find many people who agree with me on this. My opinion is based purely on technical factors, but I think I have some backing from the fundamental angle too. I doubt very much at any time in the next two or three months that the rails will sell much below 50 in the rail average. I think the low last month was around 51. The downside indications built up in the May-July distribution period by the rail average and by the individual rail stocks have in most cases been reached. Now, the ICC may show me up rather badly by refusing to grant a freight rate increase, but from the technical pattern of the railroad stocks, I believe that the rails have about reached their lows. They may, however, test these lows again.

In individual rail stocks, every rail doesn't have an attractive technical pattern. One of the better railway standard stocks is Atchinson, Topeka & Santa Fe. It is an interesting purchase at around 100 to 102. It is the type of stock that can be recommended for yield and potential appreciation. It is earning over $20 a share and with a very good possibility of an increase in the present $6 dividend, it has an attractive technical pattern. Potentially, the stock could sell at 150; and on the downside, even in a sharp break in the market, it should meet support around 95.

Other more or less standard rail stocks that I think have very sound technical patterns are Kansas City Southern, Illinois Central, Delaware & Hudson, Atlantic Coast Line, Southern Railway and Southern Pacific. Reading Corporation is also a rather interesting situation. Reading, as you know, owns a considerable block of Central Railroad of New Jersey, which is an extremely speculative issue. It has moved up from 8, about a year ago, and is selling around 34 today. Instead of buying Jersey Central, you can buy through Reading, which is selling today at around 22, about the same price it was selling a year ago. In the more speculative group, I think that Denver & Rio Grande; Chicago, Rock Island; Seaboard Air Line; Western Pacific; St. Louis & San Francisco; Gulf, Mobile & Ohio, are all attractive. I also think that for the semi-investor who wants income, some of the recorganized rail preferred stocks offer some very interesting opportunities, not only from a yield viewpoint, but from a profit viewpoint. For example, Chicago, Milwaukee, St. Paul & Pacific, preferred, sells at 34, and I think will pay $5 next year. And it is also possible that the $3.50 arrears may be cleaned up also. And even, without present pessimism, in such an eventuality it could advance a few points.

Chicago & North Western preferred is very interesting as are the preferred stocks of the speculative issues mentioned above.

As a special situation, Western Maryland common is an interesting stock, extremely speculative, but there could be some developments in the recapitalization plan. That about, I think, covers the railroad field.

Building Industry Group

The second most favorable group is the building industry. As I have stated before, I think there is a demand for building that will last for a considerable period of time. There are very many people in this country with an increased standard of living who are not going to be satisfied in their present homes. While temporarily that desire may be halted by high costs, I think over a period of time there is going to be a tremendous demand for low-cost housing.

In the building group itself, there are various types of stock, some speculative, some more or less of a semi-investment nature, and very few, with the possible exception of Johns-Manville, that would be classed as investment issues. I will not attempt to differentiate between the various issues, but stocks that look attractive technically in the building field are: American Radiator, Holland Furnace, Celotex, Flintkote, Masonite and Otis Elevator.

Then, of course, there is the allied field of cement company issues, and I think there you have some very, very attractive technical patterns. My favorites in the cement group are Lehigh Portland Cement and Alpha Portland Cement. A more speculative issue, but with greater chances of price appreciation, is Penn-Dixie Cement.

Machinery Group

The third group in the favorable field, I would say, would be the broad classification of the machinery group. That would include farm equipment issues, oil well supply issues, and everything relative to the general machinery group. The picture in the group is rather spotty, and I think you will have to be careful in selection. Stocks with a very favorable technical pattern are: Cooper-Bessemer, Elliott Company, Joy Manufacturing, Foster Wheeler, A. O. Smith, Chain Belt, Standard Steel Spring, Dresser Manufacturing, U. S. Pipe and Warren Pipe.

Actually, they should not be included in the machinery group, but I think some of the electrical equipment issues look attractive. Square D, to my way of thinking is one of the more attractive issues of the group.

In the fourth classification of favorable issues I would include mail order and store stocks. Now that is a curious thing, because for a long time, ever since the break in 1946, the merchandising issues have had unfavorable technical patterns but recently, over the past six or seven months, they have built up quite a sizable base pattern, and I believe they could have fairly substantial price advances.

Some of the retail issues that have attractive technical patterns are: Federated Department Stores, Marshall Field, Allied Stores, J. C. Penney, McCrory Stores, Montgomery Ward, Sears Roebuck and Gimbel.

Next in order, I would place possibly the oil stocks. They were one of the few groups that reached the upside objectives of the 1946-1948 base, but now since their decline from the 1948 highs, I think they are attractive. Again selection is important. Cities Service, in the more speculative field, along with Plymouth Oil, appears undervalued. Standard Oil of New Jersey and Gulf Oil are attractive in the better grade issues. Shell Union is also attractive; New Mexico and Arizona Land could be mentioned in the speculative development field.

Next in order, and without mentioning individual issues, are the steels, motors and motor equipments, paper, metals, utilities and chemicals, in that order. As for individual issues in these groups, I mention Electric Power & Light, Kelsey Hayes Wheel, Mueller Brass, Sharon Steel, Standard Steel Spring, Superior Steel, Wheeling Steel and Youngstown Sheet & Tube. There are a number of special groups that do not fit in any of the above classifications. I would include some of the household equipment issues, such as floor covering companies like Firth Carpet, Alexander Smith, and Bigelow-Sanford. They have sound technical patterns.

The fertilizer group is extremely interesting. International Minerals & Chemical is in that group. Another lesser known stock, Tennessee Corporation, is recommended.

The liquor stores are fairly liquidated and present some rather interesting profit possibilities. Schenley is an outstanding issue, and for second place, Distillers Corporation-Seagram.

I think there are some special situations in the food products group. The outstanding one is California Packing.

Now, then, there is another group of issues that has been depressed but may be near a turn. They may take quite a while in turning. I think, for example, the air line stocks could be included in that classification: American Airlines, Eastern Air Lines, Northwest Airlines and Pan American are interesting speculations. I think they are pretty well liquidated.

The Marital Deduction and Split Gift Under Revenue Act of 1948

(Continued from page 14)

this in income taxation by means of the compulsory joint return failed repeatedly, such a change was made in estate and gift taxes by the Revenue Act of 1942. Under that act a decedent in a community property state was chargeable with all the family property economically attributable to him, irrespective of the division of ownership between himself and his spouse for other purposes under the community property law. He was also chargeable with property economcially attributable to the other spouse to the extent of his power of testamentary disposition over it. Similar notions were injected into the gift tax law.

This not only evened the score; in some respects it transposed the inequality. Where, for example, the family estate had been accumulated through the husband's efforts and the spousal desire was to have the whole estate pass on the death of the first spouse to the survivor, if the wife died first, the result in a community property state, under the 1942 Act, was a tax on half the assets at her death and a tax on the whole of them at the husband's subsequent death. In a common law state, on the same facts, there would be an estate tax only at the husband's death.

The drive for equalization of the income tax was resumed after the war and culminated in the Revenue Act of 1948. In the new law, however, the whole approach to the problem of parity is reversed, the design being to put all states upon the same footing as that enjoyed by the community property states before the war. This is accomplished for community property by repealing the 1942 estate and gift tax amendments, and for non-community property by income-splitting, gift-splitting and the marital deduction. Property rights are not affected.

The Marital Deduction in Estate Taxation

The general theory of the new law is that, to the extent to which a decedent's non-community property passes on death to his surviving spouse, but not in excess of one-half, it shall be disregarded in computing the estate tax. In the typical case to which I have referred, where the family assets have been born of the husband's earnings, we have these results under the new law: in a community property state, by virtue of the repeal of the 1942 amendments, only the decedent's half of the family holdings will be subject to the estate tax; and in a common law state, by virtue of the new marital deduction, that portion of the family holdings, up to one-half, passing to the wife will pass free of tax. Observe here that under the new Act you can split your income for tax purposes without actually giving your wife any of it. Your estate will have no marital deduction, however, unless your wife actually gets part of it.

More precisely, a marital deduction is granted for the full value of all property in the decedent's gross estate passing to the surviving spouse, not exceeding an amount equal to one-half the adjusted gross estate, that is, the gross estate less Section 812(b) deductions for funeral and administration costs, claims and support allowances. As an example, if the husband's adjusted gross estate is $200,000, any amount which he bequeaths to his wife, up to $100,000, will be fully deductible in computing his estate tax. The deduction is not half the value of what is given—as is true of the interspousal gift deduction.

Terminable Interests

Unfortunately, this general rule is beset by a number of qualifications. The first of these deals with the nature of the interest which must pass to the surviving spouse. If the interest is one that by its terms will fail upon the lapse of time or the occurrence or failure to occur of an event or contingency, and if there passes by gift from the decedent spouse to a third person an interest in the same property by reason of which the third person may enjoy any part of the property after the termination of the surviving spouse's interest, then the interest passing to such spouse will not be deductible. In short, where the surviving spouse's interest is a limited or terminable one, and is followed by a successive interest in another created by the decedent for less than full consideration, there will be no deduction.

A devise to the wife for life, remainder to the children, is a clear example of a nonqualifying terminable interest. Here are a few others taken from the Senate Committee Report:

Smith devises real estate in joint tenancy to his wife and daughter. The wife's interest may terminate by her death before the daughter, whereupon the latter will succeed to the property by virtue of the survivorship interest given her by her father. The wife's half interest is not deductible. If the devise were in tenancy in common, the wife's interest would be deductible.

By deed not in contemplation of death, Smith gratuitously conveys real estate to his son, subject to a 20-year leasehold estate in Smith. Smith dies bequeathing the leasehold to his wife. The wife's interest is a terminable one and when it expires the gratuitous successive interest in the son will take effect. The bequest to the wife is not deductible. If the son paid for his successive interest, the bequest to the wife would be deductible.

An interest passing to the surviving spouse is, therefore, not disqualified merely because it is terminable. It falls from grace only when it is a terminable interest followed by a gratuitous successive interest created in a third person by the decedent. Patents, copyrights, leaseholds and annuities, for example, though terminable interests, will be deductible if the decedent passes his whole interest in them to his spouse. In most instances, however, the interest which gains deduction will not be terminable, but will be one that, barring consumption of it during the survivior's life, will be present for tax in the survivor's estate. Taxability in the survivor's estate is not the test of the deduction; but it will be characteristic of most interests which pass the test.

In one instance, however, a terminable interest, without more, is disqualified; that is where the decedent directs the purchase by his executor or trustee of a terminable interest, for example, an annuity, for the surviving spouse.

The Act uses the phrase "passes or has passed" and defines it so broadly as to include all types of property transition, either *inter vivos* or at death. It covers wills, inheritance, forced interests of a surviving spouse, deeds, joint tenancies, appointed property and insurance. Interests passing to the surviving spouse, however, must be included in the decedent's gross estate in order to be deductible. Hence, *inter vivos* transfers to the other spouse, unless revocable, in contemplation of death or the like, will not be includible in the deduction. But the gratuitous successive interest which will bar deduction of the surviving spouse's preceding estate may be created *inter vivos*. Recall the illustration where the husband, by a deed not in contemplation of death, conveyed real estate to his son subject to a leasehold estate in himself and then bequeathed the leasehold to his wife.

The Trust Exception

There are three exceptions to the so-called terminable interest rule, the first in favor of trusts. Assume a testamentary trust which gives the income, payable quarterly to the decedent's widow for life, and gives corpus as the widow by will shall appoint, to her estate or elsewhere, and in default of appointment to the children. On the test above outlined, there would be no deduction in such a case; the property would be taxed first in the decedent's estate and then in his widow's estate; and this would be true even if the power should not be exercised. This is because the widow's interest will fail upon the nonexercise of the power. The trust exception in the new Act, however, allows a deduction in such a case. It permits a deduction for a trust meeting all the following requirements:

(1) The surviving spouse must be entitled to all the income for life and such income must be payable at least annually.

(2) Such spouse must have an unrestricted power — alone — to appoint the entire corpus free of the trust (by will only, or deed only, or by either) to such spouse or the estate of such spouse, whether or not to others.

(3) There must be no power in anyone other than the spouse to appoint or distribute any of the income or of the corpus elsewhere than to such spouse.

If a trust meets these requirements (I shall call a trust which does a "deductible trust") the whole interest in the trust property is treated as passing to the surviving spouse and no succes-

sive interest is considered to exist in any other person. The exception is confined to trusts; a legal life estate in the surviving spouse coupled with a general power of appointment would not be deductible.

The exception speaks of income. While this means net income, as opposed to gross income, it is not clear whether it means net income as understood in trust accounting under the local law or net income in the income tax sense. Whatever it is held to mean, however, there is no doubt that if a trust is to be deductible the trustee can no longer be given discretion, as he has in the past, to allocate receipts and expenses between corpus and income and can have no discretion to withhold or accumulate income.

What of the familiar tool of the estate planner, the trust giving life income to the widow and remainder to the children, with no power of appointment in the widow, but with power in the trustee to invade principal to meet the widow's needs? I will refer to this as a "conventional trust." It is not deductible. It will still be used, of course, to cover property passing for the benefit of the surviving spouse in excess of the marital deductions; but though currently it avoids a second tax in the survivor's estate, it does not shift the tax, as the deductible trust does, to the estate of the survivor.

The Life Insurance Exception

A second exception exists under the Act in favor of life insurance proceeds settled on the surviving spouse upon terms similar to the deductible trust. Orginally this exception was narrower than the trust exception, but an amendment last July equated the two and, in addition, extended the exception to endowment and annuity contracts.

Where insurance proceeds are payable to the surviving spouse in a lump sum or in installments all of which go to such spouse or the estate of such spouse, the proceeds are deduct ble without resort to the insurance exception. If any of the installments may go elsewhere, however, there will be no deduction unless the settlement plan meets all these requirements:

(1) The surviving spouse must be entitled to all payments during his or her life and such payments must occur at least annually, starting not later than thirteen months after the decedent's death.

(2) Such spouse must have an unrestricted power—alone—to appoint, during life or at death, all payments under the contract to such spouse or his or her estate, whether or not to others.

(3) No other person can have the power to appoint any payments away from such spouse.

You are aware, I know, that the insurance man's kit in the past has contained few settlement plans that would meet this test.

The "Common Disaster" Exception

The third and last exception is one in favor of common d saster clauses, under which otherwise absolute interests will abort and pass elsewhere if the recipient should not survive the decedent for a specified period or if the recipient should die in a common disaster. The exception permits the use of either type of clause in a bequest to the surviving spouse, but the required period of survival cannot exceed six months; and such spouse must in fact survive the prescribed period, where the first type of clause is used; or, where the other type of clause is used, it must be shown that such spouse either did not die; or could not have died, as a result of the same accident which took the decedent's life.

The new Act, although it permits the common disaster clause, makes its use dangerous in connection with a deductible provision in the surviving spouse's favor. Heretofore, where the clause applied, the survivor's interest vanished, and the property, already taxed in the prior estate, escape a second tax. Now, property given to the wife, up to one-half the gross estate, will be taxed only once—in the wife's estate, where, presumably, the tax will be less onerous. This will be so unless a common disaster clause is used and events call it into operation. If that happens, the wife's interest vanishes, it is true, and the property will not be taxed in her estate, but it then reappears in the husband's estate to bear a heavier tax burden. Tax shifting is thus defeated.

Net Value Controls

In computing the marital deduction, the net value of the interest passing to the surviving spouse controls. The value of that interest in the gross estate is reduced by any death taxes falling upon the recipient or upon the interest by reason of the bequest; it is also reduced by the amount of any encumbrance or charge upon the property or any obligation incurred in its receipt. Once again we are at Mr. Greeley's mercy — for we cannot fix the amount of the marital deduction until we know what the estate tax is, and we cannot fix the estate tax until we know the amount of the marital deduction. This can be avoided, of course, by a provision throwing all death taxes on the nondeductible portion of the estate.

In the same vein is the provision dealing with so-called unidentified assets. If Smith conveys real estate, his only asset, as a gift to his son, reserving a 20-year leasehold estate to himself, and later dies bequeathing the leasehold to his wife, the bequest, as we have seen, will not be deductible. Have you thought of suggesting that Smith make a cash bequest of $50,000 to his wife, on the theory that, being absolute, it will be deductible even though it can be paid only by a sale of the nondeductible leasehold? Congress thought of that, too, and scotched the stratagem by a provision that if an otherwise deductible bequest to the surviving spouse may (note the word) be satisfied out of a nondeductible asset or its proceeds, the value of the bequest will be reduced by the value of such nondeductible asset; and such reduction is required even where the bequest is not in fact satisfied out of the nondeductible asset. A will setting up a deductible trust should, therefore, prohibit the inclusion in the trust corpus of any nondeductible asset or its proceeds.

Disclaimers

A further unpleasantness is the disclaimer clause. If the wife rejects an interest which in her hands would be deductible and the interest passes to others, the deduction is lost; on the other hand no deduction is permitted where a third party rejects an interest which in the wife's hands would be deductible and the rejected interest passes to the wife.

Community Property Exclusion

The marital deduction cannot exceed half the adjusted gross estate, that is, the gross estate less Section 812(b) deductions for expenses, claims and the like. If that formula were applied to an estate containing the decedent's half interest in community property, the Act would miss its target of equalization. Three-fourths of the family assets could then be passed to the wife tax-free, the half which she takes outside the probate estate as community property and half of the other half contained in the husband's gross estate; while in a common law state only half the assets can reach the wife free of tax. The law solves this by eliminating, in the computation of the adjusted gross estate, the decedent's interest in community property, thus leaving the decedent with a deduction for any non-community property passing to his wife, but with no deduction at all if his estate contains only community property.

The Deduction in Estate Planning

The estate tax marital deduction thus emerges as a tax-shifting device. In general, property relieved of taxation in the estate of the spouse first to die will be taxed in the estate of the survivor—and will be subject to the unfettered disposition of the survivor in the meantime. For many people this power of disposition will be too high a price to pay for tax shifting, especially since, without benefit of the marital deduction, they can still pass the family estate through the wife to the children with only one estate tax — that one in the husband's estate—by means of the conventional trust. But such people should be made aware of what they forfeit by placing their future estate in a conventional trust instead of dividing it between such a trust and a deductible trust. By such a division of the estate there would be two $60,000 exemptions instead of one; the tax bracket would be lower on two halves than on one whole; and payment of half the tax would be postponed until the death of the wife—not only reducing the cash demands upon the husband's estate, but giving the wife the interim earnings on funds that would otherwise have gone to pay taxes on the husband's death.

Keep in mind, however, that full use of the marital deduction does not always produce the largest saving, even where the other spouse has no property of her own. One reason is that property passing in a deductible trust rather than in a conventional trust, while escaping an estate tax in the husband's estate, will be twice taxed under state laws, once in the husband's estate and again in the wife's estate. This duplication of state death taxes, not present when a conventional trust is used, becomes more costly as the amount of the property in the deductible trust increases. Another reason, in states where the Federal tax can be deducted in computing the inheritance tax, is that as the estate tax becomes smaller, the inheritance tax becomes larger. Of course, where the wife has substantial holdings of her own, the use of the full deduction or any part of it on the husband's earlier death may actually increase the overall taxes on the two estates.

Each estate must, therefore, be carefully analyzed to determine the amount of property which should go into the deductible trust and the amount which should pass in a conventional trust, in order that maximum saving in the overall taxes on the two estates be realized. This determination should receive special attention in cases where the adjusted gross estate is less than $120,000, so that none of the precious $60,000 exemption be wasted, as well as in cases where there will be deductible interests in favor of the other spouse included in the gross estate but not passing under the will. Such outside interests—joint tenancies and insurance proceeds, for example—should be taken into account in fixing the portion of the probate estate going into the deductible trust.

And while the slide rule is in use for this purpose, the estate planner might consider another problem: the amount of property to be put into a corpus-consuming deductible trust so that it will be completely exhausted at, but not before, the wife's death. Since the property so passing would escape taxation altogether, a combination of such a trust with a conventional trust covering the rest of the family assets, would mean real tax economy. Much the same thing may be accomplished, of course, by combining an annuity, purchased during the decedent's life, with a conventional trust in the will.

Other Provisions

The estate tax marital deduction has brought with it other changes. The deduction for previously taxed property has been wholly eliminated as between husband and wife; and this elimination furnishes another argument for passing nondeductible assets for the wife's benefit by means of a conventional trust rather than by outright gift. There is another change. In the past where this deduction was available, the value of the previously taxed property was reduced by its share of deductions taken in the previous estate. It must now be reduced also by its ratable share of any marital deduction taken in the prior estate.

In the revisions of the gift tax credit section, we have complexity run wild; but some of the changes may be brought into focus here. Where a gift tax has been paid on an *inter vivos* transfer later included in the donor's gross estate at death, the law has always remitted that portion of the estate tax attributable to the inclusion of the gift in the gross estate, by permitting the gift tax to be credited, to this extent, on the estate tax. Assume a gift in contemplation of death to the donor's wife. Despite the inclusion of the gift in the gross estate at the donor's death, since the gift was to the wife, it may produce a marital deduction in the estate equal to its value in the gross estate, in which event none of the estate tax will be attributable to its inclusion in the gross estate. In such a case, the Act provides, there will be no remission of the estate tax; in determining the portion of the estate tax which is due to the inclusion in the gross estate of *inter vivos* gifts, we are required to take into account any estate tax marital deduction gained through such inclusion.

The Marital Deduction and Split Return in Gift Taxation

Equalization has also been attempted in taxation of interspousal gifts by repealing the 1942 community property amendments, effective April 2, 1948, and by providing for common law states a marital deduction equal to half the value of the gift. The qualifications here are much the same as in the estate tax deduction. No deduction can be claimed if the interest given to the other spouse is a terminable interest followed by a gratuitous successive interest either retained in the doner or created in a third person. The trust exception to the terminable interest rule appears again, but the insurance exception is omitted and another exception inserted, this one in favor of interspousal gifts in joint tenancy or tenancy by entireties. There is the same provision as to unidentified assets and, of course, the same exclusion of community property in computing the deduction as in the estate tax sections.

At an earlier point, I have drawn your attention to the fact that in estate taxation there is a deduction for the full value of qualifying interests passing to the other spouse, not exceeding, however, half the adjusted gross estate. Here the deduction is only half the value of the gift. The result is that although in a community property state the family assets may be divided so as to give each spouse one-half as his separate property without entailing any gift tax, the same division of such assets in a common law state will require the payment of a gift tax upon one-fourth of the holdings. While we may guess the philosophical and the practical considerations which brought about this result, we can hardly be expected to accept it as equalization.

Equalization is attained in the taxation of third party gifts by married persons by allowing spouses to treat such gifts as made one-half by each of them. This requires the consent of both spouses. The consent must cover all gifts made or to be made by either during the calendar year in question; and such consent results in joint and several liability upon each spouse for all gift taxes for the year.

One effect of gift-splitting is that where the family holdings are concentrated in one spouse, he now has the benefits of two $30,000 exemptions and two $3,000 annual exclusions. This, coupled with the lower bracket benefits of the split gift, brings about tax equalization to an extent not achieved by the marital deduction.

Whether or not the Revenue Act of 1948 falls short of full equalization, or on its present approach to the problem of equalization can ever be purged of its complexities, or marks the beginning of a new era in taxation—one thing is certain: it will cause no depression in the trust business.

Chase Bank Promotes

The Chase National Bank has announced the promotion of James J. GaNun from Second Vice-President to Vice-President of the bank. He is the officer in charge of the bank's Produce Exchange Branch on lower Broadway.

Harry S. Craver was appointed an Assistant Cashier in the Public Utilities Department, and Richard J. Donovan an Assistant Cashier in the Commercial Banking Dept.

Shillinglaw, Bolger Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Albert P. Stoeterau has been added to the staff of Shillinglaw, Bolger & Co., 120 South La Salle Street, members of the Chicago Stock Exchange.

Wm. H. Rybeck Admits

MERIDEN, CONN. — Esther A. Schulz has been admitted to partnership in Wm. H. Bybeck & Co., 16 West Main Street. Miss Schulz has been associated with the firm in the trading department.

With Crowell, Weedon

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Robert N. Gregory is with Crowell, Weedon & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange.

Joins Hannaford Talbot

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Philip B. Taylor has joined the staff of Hannaford & Talbot, 519 California Street. Mr. Taylor was previously with Sutro & Co.

With Brainard, Judd

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Joseph P. McCluskey has been added to the staff of Brainard-Judd & Co., 75 Pearl Street.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Affiliated Gas Equipment, Inc., Cleveland, O.
Dec. 6 filed 40,000 shares of $3 cumulative preferred stock (par $50) and 1,000,000 shares common stock (par $1). **Underwriter**—Reynolds & Co., New York. **Purpose**—To purchase all of the assets of three subsidiaries of Dresser Industries, Inc., viz: Bryant Heater Co., Cleveland; Day & Night Manufacturing Co., Monrovia, Calif. and Payne Furnace Co., Beverly Hills, Calif. [Affiliated will obtain an additional $4,000,000 the private sale of 15-year 3¾% notes to insurance companies.] Expected early in January.

● **Air Commuting, Inc., White Plains, N. Y.**
Dec. 15 (letter of notification) 1,767 shares of capital stock (no par) of which 1,000 shares will be offered publicly at $100 per share and the underwriter will receive one share for each 10 shares sold and an option for five years at $100 per share on two shares for each three shares sold. **Underwriter**—Burnham & Co., New York. Corporate purposes.

● **Air-Way Electric Appliance Corp.**
Dec. 16 (letter of notification) 15,000 shares ($3 par) common stock, for the benefit of Manhattan Building Co. **Price**—$6.50 per share. **Underwriter**—William C. Roney & Co.

All States Life Insurance Co., Montgomery, Alabama
Nov. 24 filed 30,000 shares of capital stock. No underwriting. **Offering**—To be offered to stockholders at $10 per share. **Proceeds**—To complete company's purchase of Eureka-Maryland Assurance Corp. of Baltimore, and to keep surplus intact.

● **American Petroleum Co. of Colo., Inc., Delta, Colorado**
Dec. 17 (letter of notification) 250,000 shares of common stock (par $1). Price, par. No underwriter. For drilling and development program.

American Steel & Pump Corp.
Sept. 21 filed 200,000 shares ($2 par) convertible class A stock. **Underwriters**—Herrick, Waddell & Reed, Inc. and Sills, Minton & Co., Inc. **Price**—$8 per share. **Proceeds**—To retire indebtedness and for working capital. Indefinite.

Arcata (Calif.) Timber Products Co.
Nov. 15 filed 100,000 shares 6% cumulative preferred stock (par $10) and 300 shares of common stock (par $5,000). **Offering**—To be offered in exchange for outstanding common (par $10), or as an outright sale. **Underwriter** — None. **Proceeds** — To retire outstanding common and pay notes; balance to erect plywood mill.

Argus, Inc., Ann Arbor, Mich.
Nov. 1 filed 115,315 shares ($10 par) 5½% cumulative convertible preferred stock. **Offering** — To be offered initially for sale to stockholders at the rate of one preferred stock and purchase warrant for each 3½ shares of common stock held. With each share of preferred purchased company will issue a purchase warrant entitling the holder to buy 80/100 of a share of the company's ($1 par) common stock on or before Dec. 31, 1950. **Underwriters**—Leason & Co., Inc., and First Securities Co., Chicago. **Proceeds**—For working capital.

● **Atkinson Co. (Guy F.), South San Francisco, Calif.**
Dec. 17 (letter of notification) 7,000 shares (no par) capital stock. **Price**—$30 per share. No underwriter. For additional working capital and to reduce indebtedness.

Bates Manufacturing Co., Lewiston, Me.
Dec. 8 (letter of notification) 1,000 shares of common stock (par $10). **Price**—About $32.50 per share. To be sold through Baker, Weeks & Harden, for account of president.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

● **Campbell (Calif.) Water Co.**
Dec. 17 (letter of notification) 2,000 shares of 6% cumulative preferred (par $25). Price, par. No underwriter. For operation expenses.

● **Cauble's Hatchery, Inc., Pekin, Ind.**
Dec. 17 (letter of notification) 2,000 shares of 5% cumulative preferred (par $100). Price, par. No underwriter. For operating capital.

Central Illinois Electric & Gas Co.
Dec. 3 filed 80,000 shares of common stock (par $15). **Offering**—To be offered common stockholders for subscription at par in ratio of one-sixth of a share for each share of common held. No underwriting. **Proceeds**—For construction costs.

Central Maine Power Co.
Nov. 1 filed 303,330 shares ($10 par) common stock. **Underwriter**—Coffin & Burr, Inc. **Offering**—To be offered initially to existing stockholders both preferred and common. **Proceeds** — To reduce outstanding short-term bank notes payable to The First National Bank of Boston.

Central Power & Light Co.
Nov. 21, 1947, filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers; Glore, Forgan & Co.; Dewar, Robertson & Pancoast negotiated a purchase contract in April, 1948, but the SEC on July 27, 1948, concluded that financing by the proposed preferred stock issue is not necessary.

● **Christina Mines Inc., New York**
Dec. 16 (letter of notification) 60,000 shares of capital stock. **Price**—$2.50 per share. **Underwriting**—None. Complete development program.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Cobalt Mines Corp., Newark, N. J.
July 26 (letter of notification) 290,000 shares of common stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. To meet obligations.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

● **Duro-Test Corp., North Bergen, N. J.**
Dec. 13 (letter of notification) not in excess of 10,000 shares of capital stock (par $1), to be acquired for employees of the corporation, the prices not to exceed $4.90 per share plus commissions.

● **Eastern Indiana Telephone Co., Winchester, Indiana**
Dec. 16 (letter of notification) 3,000 shares of 5% cumulative preferred stock (par $100). Price, par. **Underwriter**—City Securities Corp., Indianapolis, Ind. For further additions to plant and for additional working capital.

Eastern Rock Products, Inc. (1/3/49)
Dec. 10 (letter of notification) $295,000 15-year sinking fund first mortgage bonds. Price, par. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. **Purpose**—Refund of $295,000 first and refunding mtge. bonds.

● **Empire States Petroleum Co., Denver, Colo.**
Dec. 15 (letter of notification) 1,138,000 common shares (par 10¢), 298,000 of which are presently unissued and 840,000 of which are treasury stock. **Price**—25¢ per share. No underwriter. For operation expenses.

Erndale Mines Ltd., Toronto, Canada
Dec. 14 filed $100,000 5-year 6% first mortgage bonds (convertible into common shares at rate of four shares to dollar, or at a price of 25 cents per share). **Underwriter**—James T. Dewitt Co. **Price**—95. **Proceeds**—To pay off, in part or in full, outstanding indebtedness and for general working capital.

● **Eureka, Inc., Central City, Colo.**
Dec. 17 (letter of notification) 11,100 shares of capital stock (par $1). Price, par. No underwriter. For mining operations.

Ferro Enamel Corp., Cleveland, Ohio
Sept. 17 filed 79,080 common shares ($1 par). **Offering**—To be offered for subscription by stockholders of record Dec. 29 in ratio of one additional share for each four shares held. Rights expire Jan. 12. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Company and subsidiaries will use the funds for general corporate purposes.

Front Range Mines, Inc., Denver, Colo.
Nov. 29 (letter of notification) 150,000 shares of common stock. **Price**—$2. **Underwriter**—John R. Marple & Co., Westfield, N. J. For development construction and pay bank loans.

Fuller Brush Co., Hartford, Conn.
Nov. 8 filed 11,606 shares of 4½% cumulative nonvoting first preferred stock ($100 par). **Underwriting**—None. Price, par. **Proceeds**—To increase working capital.

Gulf States Utilities Co. (1/11/49)
Dec. 9 filed competitive bidding of $15,000,000 20-year debentures and a maximum of 280,000 shares of common stock (no par). **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (debentures); Stone & Webster Securities Corp. (both); Lehman Brothers (debentures); Merrill Lynch, Pierce Fenner & Beane and White, Weld & Co. (jointly on debentures); Merrill Lynch, Pierce, Fenner & Beane and Lehman Brothers (jointly on stock); Salomon Bros. & Hutzler and Union Securities Corp. (jointly on debentures). **Proceeds**—For general corporate purposes, including the payment of present short-term notes of $6,000,000 and the financing of a portion of its 1949 construction costs. Expected about Jan. 11.

● **H., L. & L. Development Co., Kansas City, Mo.**
Dec. 16 (letter of notification) 75,000 shares (no par) preferred. Price, $1 per share. No underwriter. For the development of oil and gas lands by drilling wells for oil and natural gas.

● **Hamilton (Ohio) Metal Products Co.**
Dec. 13 (letter of notification) 500 shares of 6% preferred stock (par $100). **Price**—Par. No underwriter. For working capital.

● **Harman (William H.) Corp., Wilmington, Del.**
Dec. 14 (letter of notification) 27,425 shares of class A capital stock. Price, market. **Underwriter**—Smith, Barney & Co.

● **Harman (William H.) Corp., Wilmington, Del.**
Dec. 16 (letter of notification) 64,332 shares of class A capital stock to be sold at auction by Adrian H. Muller & Son.

Harwill, Inc., St. Charles, Mich.
Oct. 27 (letter of notification) 125,000 shares of common stock (par $1). Price, par. **Underwriter** — Charles E. Bailey & Co., Detroit. To pay current liabilities, purchase property, building and equipment and for working capital.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

Heyden Chemical Corp., New York, N. Y.
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Offering postponed.

Hotelevision, Inc., L. I. City, N. Y. (1/3-6/49)
Nov. 3 filed 160,000 shares ($1 par) class A stock. **Underwriter** — Cantor, Fitzgerald & Co., Inc., New York. **Price**—$3 per share. **Proceeds**—To develop, exploit and distribute a television innovation.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
Nov. 23 (by amendment) 258,675 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$10 per share. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

● **Interstate Chemical Co., Seattle, Wash.**
Dec. 13 (letter of notification) 15,000 shares of preferred ($10 par) and 15,00 shares (90c par) common. To be sold in units of one share preferred and one share common at $11 per unit. Separately, the preferred would be sold at par and the common at $1 per share. No underwriter. For working capital.

● **Intra-World Sales, Inc., Fort Smith, Ark.**
Dec. 15 (letter of notification) 3,750 shares of 7% preferred (par $20). Price, par. No underwriter. To finance its business.

Kingsburg (Calif.) Cotton Oil Co.
Nov. 17 (letter of notification) 76,302 shares of common stock. **Offering** — Warrants will be issued to common shareholders entitling them to purchase one share of common for each five shares held of record on Nov. 30, at $2.50 per share. Underwriting, none. To reimburse the treasury for amount spent for capital improvements.

NEW ISSUE CALENDAR

December 28, 1948

Chicago Milwaukee St. Paul & Pacific RR. Noon (CST) — **Equip. Trust Ctfs.**

January 3, 1949

Eastern Rock Products, Inc. — **Bonds**
Hotelevision Inc. — **Class A Stock**

January 4, 1949

Illinois Central RR. — **Equip. Trust Ctfs.**

January 5, 1949

Chesapeake & Ohio Ry. — **Equip. Trust Ctfs.**

January 11, 1949

Chicago Burlington & Quincy RR. — **Eqp. Trust Ctfs.**
Gulf States Utilities Co. — **Bonds**

January 17, 1949

Rohm & Haas Co., 3:30 p.m. (EST) — **Stocks**

January 20, 1949

Nashville Chattanooga & St. Louis RR. — **Equip. Trust Ctfs.**

● **Koppers Co., Inc., Pittsburgh, Pa.**
Dec. 15 filed 400,000 shares ($10 par) common. **Underwriter**—The First Boston Corp. **Proceeds**—To retire the balance of the company's 4% purchase money mortgage bond and to pay the balance of the purchase price on a blast furnace and coke plant. Part will be used to expand plants and reduce indebtedness.

● **Lavaderos Americanos Flash, Inc., New York**
Dec. 20 (letter of notification) 100 class A shares (no par). **Price**—$250 per share. No underwriting. To establish a laundering business in Lima, Peru; corporate purposes.

Merry Mites, Inc., Columbus, Ohio
Dec. 8 (letter of notification) 19,000 shares of 6% cumulative preferred stock (par $12.50) and 19,000 shares of common (par $1). **Offering**—To be offered in units of one share each. **Price**—$13.50 per unit. **Underwriter**—The Ohio Co. **Proceeds**—To retire bank loans, purchase additional equipment and provide additional working capital.

Mississippi Power & Light Co.
Nov. 30 filed $7,500,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Equitable Securities Corp. and Shields & Co. (jointly). **Proceeds**—To finance in part company's construction program and other corporate purposes.

● **Mississippi River Fuel Corp.**
Dec. 21 filed 146,700 shares of common stock. **Underwriter** — Union Securities Corp. **Proceeds** — To selling stockholders. These shares were purchased from Standard Oil Co. (New Jersey) in July 1948 by a group of investment houses headed by Union Securities Corp. Firms in the group of selling stockholders, in addition to Union Securities Corp., are Kuhn, Loeb & Co., Stone & Webster Securities Corp., White, Weld & Co., A. C. Allyn and Co., Inc., Equitable Securities Corp., John W. Clarke, Inc., Dewar, Robertson & Pancoast, and Walker, Austin & Waggener. **Business**—Corporation, which was organized in 1928, owns and operates a natural gas pipeline system extending from northern Louisiana to the Greater St. Louis area. Of the remaining 508,520 shares of common stock outstanding, all but 3,320 shares are owned by United Gas Corp., Columbian Carbon Co. and United Carbon Co.

Monarch Machine Tool Co.
Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

● **Moore Enameling & Mfg. Co., West Lafayette, Ohio**
Dec. 16 (letter of notification) 10,000 shares (no par) common. **Price**—35 cents per share. Proceeds go to William B. Rodgers. **Underwriter**—Cohu & Co.

National Battery Co.
July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper, Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes. Temporarily deferred.

National Tuna Clippers, Inc., San Diego, Calif.
Nov. 30 (letter of notification) 30,000 shares ($10 par) 6% cumulative preferred stock, nonassessable and nonconvertible. Price, par. No underwriting. For general corporate purposes. **Underwriters**—Buckley Brothers; Hope & Co., San Diego, Calif.; G. Brashears & Co., and First California Co., Los Angeles, Calif.

● **Ocean Downs Racing Association, Inc., Baltimore, Md.**
Dec. 16 filed $600,000 6% income debentures due Jan. 1, 1974, and 60,000 shares (50¢ par) common. **Offering**—To be offered in units of $100 of debentures and 10 shares of stock. **Underwriters**—Harrison & Co.; Bioren & Co., Philadelphia; C. T. Williams & Co., Inc., Baltimore, and Woodcock, McLear & Co., Philadelphia. **Proceeds**—To construct a racing plant.

Orangeburg (N. Y.) Manufacturing Co., Inc.
Oct. 29 (letter of notification) 2,000 shares of common stock (par $10). **Price**—$16 per share. **Underwriter**—Kebbon, McCormick & Co., Chicago. Proceeds to selling stockholders.

● **Public Service Co. of Indiana, Inc.**
Dec. 21 filed $12,000,000 first mortgage bonds, series H, due 1979. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co., and White, Weld & Co. (jointly). **Proceeds**—For construction costs.

Public Service Electric & Gas Co.
June 11 filed 200,000 shares ($100 par) cumulative preferred stock. **Proceeds**—For property additions and improvements. **Underwriting**—The company rejected bids submitted Aug. 4. The SEC on Aug. 23 exempted the proposed sale from the competitive bidding rule. Sale on agency basis being discussed.

Renaissance Films Distribution, Inc., Montreal, Que.
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

Robinson Plywood & Timber Co., Everett, Washington
Nov. 17 filed 271,025 shares ($1 par) common stock, of which 105,000 shares are to be offered by company, and 166,025 shares by 15 selling stockholders. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To company from the sale of the 105,000 shares will be added to working capital, except about $275,000 may be advanced to a new subsidiary to be used by it in making part payment of the option purchase price of one-half of the stock of Conifer Timber Co., Fortson, Wash. Indefinitely postponed.

Rohm & Haas Co., Philadelphia, Pa. (1/17/49)
Dec. 2 filed 15,816 shares of 4% cumulative preferred stock, series "A" (par $100) and 197,697 shares of common (par $20). Offering being proposed by U. S. Attorney General, Office of Alien Property Custodian. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include Kuhn, Loeb & Co.; Lehman Brothers, and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co., and Drexel & Co. (jointly); A. G. Becker & Co., and Union Securities Corp. (jointly). An additional 5,410 shares of preferred and 67,627 shares of common are included in the registration but they are not being offered at this time because of a pending suit for return of these shares under the Trading with the Enemy Act. Registration statement effective Dec. 13. **Bids**—Bids for purchase of stocks will be received at Department of Justice, Office of Alien Property, 120 Broadway, New York, up to 3:30 p.m. (EST) Jan. 17.

San Juan Glove Corp., Hato Rey, Puerto Rico
Dec. 10 (letter of notification) 60,000 shares of Class A common stock. **Price** — $5 per share. **Underwriter** — Lawrence Turnure & Co.; Blyth & Bonner, New York. For corporate purposes and working capital.

St. Anthony Mines Ltd., Toronto, Can.
Aug. 6 filed 1,088,843 common shares (par $1). Price, 40 cents per share. **Underwriter**—Old Colony Securities Ltd. of Toronto. Proceeds for gold mining operations.

Silver Diner Corp., New York
Nov. 17 (letter of notification) 299,000 shares of common stock (par $1). Price, par. **Underwriter**—Willis E. Burnside & Co., Inc., New York. Working capital. Expected early next year.

Smith (C. D.) Co., Grand Junction, Colo.
Nov. 22 (letter of notification) 1,500 shares ($50 par) 5½% cumulative preferred stock. **Price**—$51 per share. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colo. For additional working capital and to reduce amount of short-term bank loans.

Southern Indiana Gas & Electric Co.
Oct. 20 filed 600,000 shares (no par) common stock owned by the Commonwealth & Southern Corp. and 75,000 additional shares of stock for the benefit of the company. **Underwriter** — Smith, Barney & Co. Price, by amendment. **Proceeds**—Commonwealth will use its proceeds to reduce indebtedness and Southern Indiana will use its proceeds for property additions and betterments. Offering deferred.

Southern Oil Corp., Jackson, Miss.
Oct. 8 filed 1,500,000 shares of common stock (par 1c) of which 1,350,000 shares will be sold by company and 150,000 shares by W. G. Nelson Exploration Co. **Price**—$1 per share. **Underwriter**—J. J. Le Done Co.; Petroleum Equities Corp., New York. **Proceeds**—For working capital and general corporate purposes.

● **Southern Union Gas Co., Dallas, Tex.**
Dec. 16 filed 107,430 shares ($1 par) common stock. **Offering**—To be made to holders of outstanding stock of record Jan. 3, on basis of one new share for each 10 shares held, plus the privilege of subscribing for additional shares not purchased by other stockholders. **Underwriting**—None. **Proceeds**—For construction and betterments.

Southwestern Investment Co.
Nov. 12 filed 33,880 shares (no par) common stock. **Underwriters**—Schneider, Bernet & Hickman; G. H. Walker & Co.; Dewar, Robertson & Pancoast; Underwood, Neuhaus & Co. **Offering**—Offered for subscription by stockholders at $16.75 per share in ratio of one new share for each two shares held. Rights expire Dec. 24. **Proceeds**—To increase working capital.

● **Taylor Food Co., Raleigh, N. C.**
Dec. 17 (letter of notification) 17,000 shares ($1 par) common stock, of which 7,000 shares would be sold at $1.12½ and 10,000 shares at $1 per share. **Underwriter**—Griffin & Vaden, Inc. For additional working capital.

● **Thirteenth Street Housing Corp., Rockville, Maryland**
Dec. 13 (letter of notification) 421 shares of capital stock. **Price**—$27.04 per share. No underwriter. To purchase building.

● **Tower Oil Co., Cincinnati, Ohio**
Dec. 14 (letter of notification) 9,420 shares of class A capital stock. Price, $7.25. No underwriter. For an expansion program including the building of new gasoline service stations.

Mrs. Tucker's Foods, Inc., Sherman, Texas
Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher, Pierce & Co., Inc. **Proceeds**—For general corporate purposes.

● **United Funds, Inc., Kansas City, Mo.**
Dec. 20 filed $12,000 of periodic investment plans to acquire united accumulative fund shares.

United Utilities & Specialty Corp.
Oct. 15 (by amendment) 125,000 shares of common stock (par $1) and 33,000 stock purchase warrants (to be sold to underwriter at 10 cents each). **Underwriters**—George R. Cooley & Co., Inc., Albany, N. Y., and others to be named by amendment. Price, market. **Proceeds**—To repay bank loans, working capital, etc.

Upper Peninsula Power Co.
Sept. 28 filed 200,000 shares of common stock (par $9). **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

Waukesha (Wis.) Motor Co.
Dec. 7 filed 200,000 shares of common stock ($5 par). **Offering**—To be offered to stockholders of record Jan. 3 at rate of one new for each two shares held. Rights expire Jan. 24. **Underwriting**—Company will pay fees to selected investment dealers for securing the exercise of subscription warrants. Robert W. Baird & Co. Inc. will be dealer-manager. **Proceeds**—To carry possible increase of accounts receivable and inventories and to provide for plant improvement.

● **Western Reserve Finance Co., Cleveland, O.**
Dec. 16 (letter of notification) 6,000 shares ($50 par) preferred and 2,000 shares (no par) common stock. **Price**—Preferred, $55 per share; common at $10 per share. No underwriter. To increase capital of company.

Wiegand (Edwin L.) Co., Pittsburgh
Sept. 28 filed 200,000 shares (no par) common stock. **Underwriter**—Hemphill, Noyes & Co., New York. Price, by amendment. **Proceeds**—Will go to selling stockholders. Offering postponed.

Prospective Offerings

Chesapeake & Ohio Ry. (1/5-6/49)
Company, it is reported, plans the sale of $8,900,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler. Sale expected about Jan. 5-6.

Chicago Burlington & Quincy RR. (1/11/49)
Company expected to sell $4,320,000 equipment trust certificates early in January. Probable bidders: Halsey, Stuart & Co. Inc., Harris, Hall & Co. (Inc.), Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly). Sale expected about Jan. 11.

Chicago Milwaukee St. Paul & Pacific RR. (12/28)
Bids for purchase of $4,540,000 equipment trust certificates, series GG, will be received at office of J. W. Severs, Vice-President, Room 744, Union Station Building, Chicago, up to noon (CST) Dec. 28. Certificates will be dated Jan. 1, 1949, and will mature $227,000 semi-annually July 1, 1949 to Jan. 1, 1959. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harris, Hall & Co. (Inc.), Harriman Ripley & Co. and Lehman Brothers (jointly).

Illinois Central RR. (1/4/49)
Dec. 9 company asked ICC for authority to issue $6,400,000 of equipment trust certificates, series BB. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); The First Boston Corp.

● **Jersey Central Power & Light Co.**
Dec. 10 company asked SEC permission to sell through competitive bidding $3,500,000 30-year first mortgage bonds, proceeds to be used for construction. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; The First Boston Corp.; Salomon Bros. & Hutzler.

Nashville Chattanooga & St. Louis RR. (1/20)
Dec. 13 reported company plans the sale of $4,320,000 equipment trust certificates, series E, maturing serially in 1 to 15 years. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.). Expected about Jan. 20.

● **Pacific Telephone & Telegraph Co.**
Dec. 22 company revealed plan to offer 828,920 additional shares of common stock to its stockholders at $100 a share, in ratio of one new share for each five shares of common or preferred stock owned. Proceeds would be used to repay temporary loans and to finance further plant construction.

Importance of the Interest Rate

(Continued from page 14)
tioning and restrictions which the public so heartily dislikes.

Diverse Effects of Interest Rates

In considering the question of the rate of interest in a relatively free economy carried on essentially by private enterprise, it should be admitted that there are certain situations (listed below) in which a change in the rate will be of relatively little effect, especially since 2 to 3% must be regarded as the upper limit of increase for most countries in the Western World.

(1) Whenever there is a large budget deficit financed by the use of central-bank money and thus causing direct inflation, it is not to be expected that an increase in the rate even from 3 to 6% will make any material difference. In such a situation people will be willing to pay a high rate for money simply in order to acquire goods and other real assets (the things which in German are called "Sachwerte"), this being the only way to avoid losses from inflation. If, moreover, at a time of budget deficits (or of a plentiful supply of liquid funds from other sources), abrupt and sharp increases were to be made in money wages, it would clearly be absurd to expect monetary stability from an increase in interest rates.

(2) From time to time machinery, etc., is revolutionized by startling inventions which it pays to exploit at almost any rate of interest.

(3) When stocks of raw materials have run down or plant and equipment have been insufficiently maintained (as is the case after a long war), every businessman will be anxious to restock and reequip his enterprise at an early date; and even relatively high interest will then not prevent a heavy demand for credit. Faced with such a situation the authorities are likely to rely partly on quantitative restrictions and will, therefore, only gradually abolish their wartime controls.

When, in the period immediately following the second World War, businessmen in Great Britain were asked, in a questionnaire prepared by a group of economists, whether considerations as to the level of interest influenced them in their decisions regarding enlargement of their activities, etc., it is not surprising to find that they usually attached little importance to the rate of interest. But that does not rule out the possibility that **in more normal circumstances even moderate changes in interest rates may have a substantial effect.**

There are, in fact, **certain fields of activity sensitive to alerations in interest rates.** It is, for instance, generally admitted that the interest level exerts an influence on the volume of building (because of the large amounts of capital involved and the relatively long life of houses), but it is not always realized what a large proportion of current investments is generally accounted for by building activity. Even at the peak of the railway construction in the United States in the latter half of the nineteenth century the building of houses represented about one-half of the value of all capital investments resulting from the employment both of national savings and of resources borrowed abroad.

Factor in Calculating Profitability

The level of interest rates is also a determining factor in calculating the profitability of other large-scale constructions, such as electric power stations, requiring much initial capital outlay. The two groups of investments already mentioned will often absorb 60% or more of all current savings.

Another important question concerns the shift in investments between government bonds and other capital assets. With government debts on their present scale, such movements give rise to a complex of questions which can in no way be neglected. Suppose a particular venture would give a yield of (say) 7% while government bonds yield 5%. The difference between the two rates may not be sufficiently important to outweigh the risk involved in starting the business in question; but if the yield of government bonds were only at the rate of 3% the profits expected from the business venture would be more than twice the income derived from government bonds—a very substantial difference.

In general, account must be taken of the influence which the rate of interest exerts on capital values (i.e. as a "capitalization factor"). When during the last two years the Sveriges Riksbank, by its purchases, supported the quotations of government bonds at a yield of 3%, savings banks and some other institutions sold out a great part of their holdings of government bonds, investing the proceeds largely in mortgages which would give them ½ to 1% more per annum. Had the Riksbank withdrawn its support from the bond market, with the result that the quotations dropped to (say) 80 (corresponding to an effective yield of 3¾%), the savings banks and the other institutions would have been much less inclined to sell out, since they might have reckoned that in a few years' time, when the business trend had turned, the bonds would again be quoted at 100; it would have required a very high immediate gain to make up for the loss of 20% in the capital value. It would seem beyond doubt that a withdrawal of the Riksbank's support, causing a rise in interest rates, would have had a very considerable effect on the amount of credits granted and consequently on the volume of investments in Sweden.

Differences in interest levels are apt to exert an influence on international movements of capital, partly because transactions affecting several countries tend to be financed in the market with the lowest rates. In the past three years there has not been much latitude for shifts in financing but, even so, reports from the Belgian and other markets give the impression that changes in interest rates have not been without influence on the flow of funds from one country to another and that they have really helped to restore equilibrium in the capital account of the balance of payments.

Psychological Influence of Interest Rates

Finally, some importance should be attached to the psychological influence of changes in interest rates, an increase being likely to act as a warning with regard to the state of business generally, while a reduction in the rate strikes a more hopeful note. If rates were to be kept absolutely fixed over long periods, central banks would lose one of their most flexible means of influencing monetary trends. It is also well to remember that a strengthening of financial controls, affecting the volume of purchasing power, will usually permit the abolition of many existing hindrances to foreign trade and thus strengthen the ties of free international intercourse, while physical controls (and especially exchange controls) tend to intensify the trend towards nationalistic insulation. It is, therefore, encouraging to find that the practice of monetary authorities, as well as the opinions of leading economists, is increasingly swinging round to financial controls including a greater reliance on interest rates as one of the instruments of monetary management.

It is not the case that those who deny the influence of the rate of interest can cite the late Lord Keynes as one of their supporters. On the contrary, he attached great importance to the effect of changes in credit conditions and in the rate of interest in particular; only he believed current savings before 1939 to be more than adequate, necessitating the maintenance of very low rates, especially if full employment was restored. After the wartime destruction of capital assets and the marked decline in the postwar flow of savings, even with full employment, Keynes, had he lived, would logically have been in favor of a higher interest level. It is perhaps interesting to recall that it was not Keynes who discovered that central banks, by their interventions in the markets, could influence the actual level of interest rates. Swedish economists had been insistent on that point long before Keynes: Gustav Cassel had said it before 1914 and Knut Wicksell had, even before 1900, made the possibility of such an influence a cardinal point of his monetary theory. According to Wicksell, the *market* rate of interest was subject to a number of diverse influences, including the action of central banks, but he did not think central banks should be in a position to act arbitrarily; for there was a *natural* rate of interest related principally to the supply of capital goods in each particular country; if the banks quoted a higher rate than the natural rate, the result would be a fall in prices, but if they maintained too low a rate an inflationary rise in prices would ensue. The mistake of many so-called modern economists is not that they think central banks can influence the level of interest rates but that they attribute to the central banks the power to fix almost any interest rate arbitrarily and with impunity. (Incidentally, Oscar Wilde said that the great danger of being too modern is that one so soon gets old-fashioned.)

Sweden's Experience

To return to developments in Sweden, the purchase by the Riksbank of more than S. Kr. 3,000 million of gilt-edged securities to enforce a rate of 3% has been accompanied by an undue volume of investments, equivalent to as much as 30% of the gross national product (20% being a more normal figure). But "new houses cannot be built with old government bonds," as a high Swedish official is reported to have said. Since all the capital required for the volume of investments in Sweden could not be provided by current savings, the burden fell on the monetary reserves, which went down from about S. Kr. 3,000 million in 1945 to some S. Kr. 700 million in the summer of 1948 (less than S. Kr. 350 million being in gold and dollars). This tremendous drop in the reserves forced the Swedish Government to impose tighter and tighter trade restrictions, which in the end have involved a cutting down of imports of raw materials and of machinery, especially from the United States.

The reason why those in power in Sweden have been against any increase in the interest level has been their desire not to cause the slightest rise in the rents charged for flats and houses, the policy being to maintain rents at the 1939 level (while as a matter of fact, a rise by ½% in the mortgage rates would not increase the cost of living by 1%). In other countries, one of the principal considerations prompting the continuance of cheap money has been the wish to keep down the burden of public debts. Moreover — especially in the United States—the authorities have been afraid of permitting a drop in the quotations for government bonds, because many of the banks and other financial institutions which during the war were pressed to subscribe heavily to such bonds would run into balance-sheet trouble if their holdings could not be booked at their full par value. The Federal Reserve System has helped to bring about an increase in short-term rates but has from time to time bought long-term government bonds in the market, giving support to an interest level of 2½%. It was recognized that such purchases might have certain undesirable consequences of an inflationary character, but many had hoped that these consequences would be neutralized by the realization of a large budget surplus; and, indeed, for the fiscal year 1947-1948 the Federal budget closed with a surplus of $8,400 million—the largest ever known in the United States or in any other country. But the general level of commodity prices nevertheless rose by over 10% and the fear of inflation persisted. The conclusion would seem to be that budget policy cannot wholly take over the role of credit policy, the latter playing an independent part side by side with the former. This is further exemplified by Belgium, where in 1947 the budget had not yet been wholly balanced but a restrictive credit policy helped to maintain equilibrium. It is, of course, not claimed that a deficit or a surplus in the budget is of no consequence but only that public finance cannot replace credit policy.

Reliance on the realization of budget surpluses would seem to entail a rather exaggerated confidence in the wisdom and courage of the ordinary run of politicians. In the fiscal year 1948-49 the budget in the United States will already have ceased to show a surplus, although boom conditions still prevail. This need not in itself bring about inflation, provided an appropriate credit policy is followed—witness the experience of other countries. In a more general way, it may be noted that, whenever a surplus in the budget is obtained through almost confiscatory taxation of higher incomes, the result may actually be a **reduction** in the volume of private savings, especially if at the same time more money is left in the hands of the bulk of the population (for instance, through abolition of the turnover tax) and currently spent. The anti-inflationary effect would be more certain if the budget surplus were achieved through a substantial reduction in government expenditure; but this has only rarely been the case. Finally, the effects which the rate of interest produces on capital values and movements of funds are not brought about to the same extent by changes in the budget.

Policy of Government Bond Purchases

As financial control takes the place of physical controls, the volume of monetary purchasing power must not be unduly increased. It is, therefore, of the utmost importance that under the present boom conditions central banks should rigorously abstain from pumping fresh funds into the market by purchases of government bonds. Once such practices have ceased, it will be possible to tell what is the proper rate of interest in the market. In Switzerland, the National Bank and the Federal Ministry of Finance have in recent years sold gold and gold coins to the amount of about Sw. frcs. 1,500 million, thus absorbing funds from the home market. At the same time, interest rates have risen, but only by ¼ to ½% this being sufficient to ensure equilibrium. On the London market the acceptance by Sir Stafford Cripps of the 3% level for government bonds, instead of the 2½% level at which his predecessor had aimed, rapidly gave a new note of balance to the whole financial structure. Through the advent of Marshall aid, the capital markets of countries with a balanced budget are receiving additional resources which should make it possible for the balance to be restored by means of a relatively moderate increase in the level of interest rates.

Where, on the other hand, the budget has not yet been balanced and the need of capital is great as is the case in Italy, interest rates have to be raised more appreciably. Thus government bonds in Italy yield about 5% and commercial credits cost 6 to 8%. This policy has, on the whole, been very successful, the free market rate for the dollar, for instance, having been brought back from about Lit. 900 at the beginning of 1947 to about Lit. 600 in the Summer of 1948.

The 18th Annual Report of the Bank for International Settlements, published in June, 1948, finds that its review of monetary and credit conditions in the world "leaves an impression of all-round reaction against an extreme ease of money—with only one or two obvious exceptions. More attention has been paid to monetary means of control in addition to those direct physical controls already in existence." It further finds that increases in interest rates which have taken place "are moderate and cannot be considered inappropriate in the present atmosphere of full employment, with production reaching the limits of capacity, but the danger of further inflation is by no means completely over; the falling-off of small savings in a number of countries is not the least significant warning that private thrift needs to be encouraged and that an essential factor in the hands of the economy must always be an adequate formation of genuine savings out of current income."

Indeed the successful execution of the European Recovery Program requires the adoption of a flexible credit policy after the rigid conditions enforced during the war. But credit is akin to confidence; and to consider a broader aspect, the re-application of financial controls characteristic of a peace economy presupposes for its full success a restoration of real peace with settled political conditions in the individual countries and in their relations with one another.

Observations

(Continued from page 5)

to the proposal for pending steel nationalization—all clearly appealing to the material self-interest of the majority.

Wigs, Monocles, and Steel Nationalization

Take the socialization of medicine. Can the question of whether, as charged, the result of the Act is "To make organization and administration serve purposes in medical care which are foreign to the philosophy of medicine, curtail initiative and degrade the profession, and spread the collectivized state," or even the citation of abortive precedents in Germany, Austria, Russia and New Zealand; possibly outweigh in the voter's emotions the bait of something more for nothing, the "something" in this case ranging all the way from three pairs of free eyeglasses to two wigs per citizen (voter), the initial provision and cleaning of the latter incurring an annual cost to the government of $4,500,000.

Significantly, the potential tough-sledding facing the steel nationalization legislation is no doubt only made possible by the relatively vague connection between Sir Stafford Cripps' basic aim to end private "cartelization" and the self-realized interest of the electorate.

Monopoly is not the live issue for the voters that are free monocles and toupees.

Typically, even our investment banking fraternity has evidenced the forsaking of broad basic political implications for the immediate specific results foreseeable from public ownership and socialization. The Public Service Securities Committee of the Investment Bankers Association has just issued an official report (contained elsewhere in this issue of the "Chronicle") in which it is contended that further Federal Power projects of the non-TVA variety are justified, "assuming recognition and respect for the rights of the utility companies and investors in their securities." The narrow justification offered is that "the projects heretofore completed have largely benefited rather than harmed the utilities in the respective districts where such projects are located."

The same test of self-interest extends to international activities as well. For example, where exchange controls with overvalued currencies rule, embracing a concealed tax on exporters to pay a disguised subsidy to importers and subsidization of consumers—small wonder is it that it is difficult to remove the exchange penalties on exporters which these other more numerous sectors of the community feel are benefiting them.

* * *

Hence we must realize that no class or section of the community has a monopoly on lacking the moral stamina needed to quarrel with Santa Claus, to resist our Robin Hood politicians, or to refuse the delightful sensation of getting something for nothing whether by soaking-the-rich or even by confiscating the real income of state-pampered labor by concealed taxation!

Our Reporter's Report

Broadly speaking the investment banking business has had little real cause for complaint so far as this year's results are concerned, although things naturally could have been much better without approaching the state of general prosperity.

Judging by comments of those in the business the rank and file got through with some measure of profit while a few of the more aggressive houses did much better than just that.

It was not until the twilight months of the year that those who bring together corporations seeking funds and investments looking for outlets for their capital, spotted what they viewed as the real "big break" in their favor.

That took the form of the return of the savings banks to the field of investment incorporate securities. With little noteworthy exception the savings institutions, over a period of years, have been conspicuously absent from the corporate investment picture.

Their reticence needed no further explanation than the sparse yields afforded by the type of security which they are permitted by law to acquire.

So there was no little cheering among underwriters when the closing two months of the year brought mounting evidence of reviving interest on the part of this important investing segment. The manner in which such banks in New York, Boston and Philadelphia subscribed for the last big American Telephone & Telegraph issue added a real touch of Christmas cheer.

Yields Hold the Answer

The pickup in yields offered by top-grade investments of rating suitable for investment by savings banks provides the explanation of their return as buyers of corporates in substantial volume.

These institutions, it was noted, were disposed, though not necessarily willing, to keep their funds in Treasuries and in mortgage loans until the return on corporates of their choice that is Double and Triple A ratings pushed above the 3% level.

Well just that came to pass as the year progressed with the yield on top-grade utility issues rising 25 to 30 basis points in the year and on good rails as much as 50 basis points.

Offers Diversification

While the savings banks have had little to say about the shift of their investment policies, it is known that the change in direction must be to their liking.

They are concerned naturally with the element of diversification just as any other of the large institutional investors. But in recent years the opportunity for acquiring corporates of the type suitable for their purposes on the right yield basis have been the exception.

Market observers are confident that the new order in the corporate field may be expected to continue since there is no reason to expect a return of abnormal ease in money rates unless the Treasury and the Federal Reserve reverse their current policy, which does not appear to be indicated.

Still a Sore Spot

Those who make their money by doing the actual selling of new issues are hopeful that the trend toward more consideration for profit, noted in competitive bidding in the closing months of the year, will be continued.

Such business throughout most of the year did not set particularly well with those who must do the selling since spreads were too thin, and the chances for taking a "licking" were great.

Underwriters naturally have been operating in the type of market where the institutional investor has been the principal outlet, but with yields moving up a bit presumably it is the hope of some that individual investors may be found showing a bit more interest.

Building New Backlog

That the new year holds promise of sustained volume of corporate financing appears indicated by the smattering of plans now coming into sight though much will depend on tax changes, etc.

But several utilities have indicated plans for the early months, Public Service Co. of Indiana having registered $12,000,000 of new bonds, while Dallas Power & Light plans a $10,000,000 issue and Kentucky & West Virginia Power plans a similar flotation.

Meanwhile Koppers Co., Inc. has registered 400,000 new common shares to be offered if, and when, market conditions are considered satisfactory.

State Debt at New High

Debt of State governments has been increasing rapidly in the past two years, according to a report issued Dec. 17 by the Bureau of the Census.

After declining each year from 1941 to 1946, gross debt of the 48 States has risen by more than $600,000,000 in each of the two past fiscal years. Total State debt outstanding is now above the level of 1940, its previous high.

Of gross State debt totaling $3,629,220,000 at the end of fiscal 1948, only $103,511,000 represented short-term borrowings. Against the balance, made up of long-term debt, the States had $576,073,000 in sinking funds, so that "net" long-term debt of the 48 States totaled $2,946,636,000. This represents an increase of 70% in net long-term debt of the 48 States in the past two years, according to the Census Bureau.

Most debt of the State governments is backed by their full faith and credit, but long-term debt of the 48 States at the end of fiscal 1948 included $394,057,000 of "nonguaranteed" obligations, payable only from particular State revenue sources and not representing a contingent charge against other taxes or revenues.

Large-scale borrowing by numerous States, especially to finance veterans' benefits, has accounted for most of the growth of State debt in the past two years, according to the Census report. For 23 States, gross debt increased, and for 25 States, it was reduced, during the fiscal year 1948—i.e., except in 7 States with earlier closing dates, the 12 months ending June 30, 1948.

With Buckley Securities

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Charles C. Mickle, Jr., is with Buckley Securities Corp., 530 West Sixth Street.

With Uhlmann & Benjamin

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Frank J. Holub is with Uhlmann & Benjamin, Board of Trade Bldg.

COMING EVENTS

In Investment Field

Jan. 14, 1949 (Baltimore, Md.)
Baltimore Security Traders Association 14th Annual Banquet at the Lord Baltimore Hotel.

Feb. 12, 1949 (New York City)
Friday Night Bond Club Annual Dinner Dance at the Hotel Pennsylvania.

Oct. 5-9, 1949 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at The Broadmoor Hotel.

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dr. H. E. Enthoven in NYC

Dr. Henri Emile Enthoven is engaging in a securities business from offices at 320 East 57th Street, New York City.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—President Truman, when he appears in person before Congress in less than two weeks, "will ask for all." This is the burden of reports coming from all persons who have talked recently with the President and his official family. They anticipate that the "State of the Union" message will call upon Congress to enact all the legislation pertaining to the President's numerous, expensive, and conflicting campaign promises.

Whether these reports of Mr. Truman's plans are accurate cannot be confirmed, of course, until the President delivers his message on Jan. 5. On the other hand, if it does pan out that the President seemingly asks Congress to approve all his campaign program, then this request has one definite significance.

This significance is that the White House entourage has not as yet and will not by Jan. 5 be able to make up its mind how it will work out of the web of entanglements it wove around itself in the election. It may be reported that there is no lack of sensitiveness among Mr. Truman's advisers as to the enormous political difficulties involved in these campaign promises.

Hence if the President does "ask for all," the test of what Mr. Truman does want enacted and what he wants shoved aside, blunted, or delayed for the sake both of political harmony and the stability of the country's business, will come out later. The President will have to make his wishes known, when necessary, in his private conversations with his legislative leaders from the Capitol. Often the President may escape making even this private commitment, for the sheer volume of promises exceeds the capacity of the legislative mill to grind out in one session's operations.

Watch also to see how much the President stresses objectives rather than specific programs. Last year, sure that Congress would give him nearly nothing, the President endorsed a host of specific legislative proposals, such as health insurance, other medical aids, the Taft-Wagner-Ellender housing bill, and so on.

* * *

In the private opinion of one of the Senators who has had a great deal to do with the subject, what turns out in the way of labor regulation legislation may provide a fairly typical standard of how far the Congress will go to the Left in 1949.

It was pointed out that although the White House visitors have announced that the President has promised a simple repeal of the Taft-Hartley law (if such is technically and legally possible), there will be 50 members of the Senate in the 81st Congress who voted to override the veto of the Taft-Hartley act. Four additional Senators new to the 81st were members of the House who voted to override. Of the new House, 228 members voted to override.

"So I would say that if the Republican leaders make a determined fight to save as much of the Taft-Hartley law as they can, and I personally think they will, they can save a good deal of it from going down the drain. On the other hand, if Mr. Truman 'stakes his all' on the complete wiping out of the Taft-Hartley act, I think he can pretty near get away with it," said this informant.

* * *

Public housers, whose mouths are fairly drooling at the prospect, which seems to be almost sure of getting through a public housing and slum clearance bill early in the year, have one big fear. That fear is that even if some northern Democratic "civil righters" don't do it, some Republicans will—that is, introduce on the floor an amendment providing that any of the public housing constructed under the program shall be open freely to persons of all races, and with no segregation.

House rules would probably preclude the offering of such an amendment from the floor. In the Senate the rules will permit it. It probably can be done. Several of the most ardent lefties of both parties could not avoid voting for it. This would immediately alienate Senator Burnet R. Maybank, the prospective acting chairman of the Banking Committee, and Senator John J. Sparkman of Alabama, two ardent advocates of public housing. Even Senator Allen J. Ellender of Louisiana, coauthor of the program, would throw a fit. If Republicans who oppose public housing remain firm in opposition, and were an anti-segregation amendment added, Southern Democratic "nays" added to their negative votes might possibly kill the whole proposition.

* * *

The storms of demagogy will whip with great force during 1949 upon "monopolistic big business." Rep. Wright Patman of Texas, who works harder at this anti-big business stuff than almost any one except Senator Joseph C O'Mahoney of Wyoming, probably will head the House Small Business Committee, if it is recreated. The chances are that both House and Senate special committees on "Small Business" will again be set up, despite the Democratic-sponsored Legislative Reorganization Act of 1946, which condemns special committees. The "small business racket" is politically too profitable to be shut off. Senator O'Mahoney is reported to be planning to turn the Joint Committee on the Economic Report into a forum for propaganda against "big business" and in favor of his proposal to require Federal incorporation (and rigid Federal regulation) of all corporations.

On the other hand, the best guessing of business observers in Washington is that the Kefauver bill will pass. This is the pet project of the Federal Trade Commission to prohibit the acquisition by one company of the assets of another (as well as stock control, now prohibited) where the effect "is substantially to lessen competition."

It is not predicted, however, whether this proposition is likely to pass in 1949 or go over until next year.

Besides increasing the network of Federal regulation of business, the Kefauver bill would work a hardship upon the owners and creditors of a business in difficulty. They could not sell to the most likely buyer, a competitor. If they could not sell out to a new owner or bring in new capital, they would be forced to liquidate were such a law in existence.

* * *

Experts in the field of farm legislation anticipate that Congress will open up the whole subject of price supports and farm control legislation to consideration again in 1949. This seems to be one of the results of the corn belt jitters over falling prices and the danger the government would not protect farm income, which led to the defeat of Republican candidates in some normally strong GOP constituencies.

Under the Aiken law revising farm supports and farm legislation, price supports beginning in 1950 would vary between 60% and 90% of "parity." The more farmers continued to pile up surpluses, as they seem headed for doing in wheat, the lower would be the percentage of "parity" at which the price support would operate.

Until the election most farm groups, the White House, and Republican leaders, favored the flexible supports on the theory that if the law required mandatory high supports in the face of continually mounting surpluses, public indignation eventually would threaten to wipe out all supports. As a result of the farm jitters over falling prices, there is now less backing for the flexible supports, as was evidenced in the meeting several days ago of the American Farm Bureau Federation.

On the other hand, it is not anticipated that supports will be maintained indefinitely as high as the 90% of parity sought by the chairmen of the Senate and House committees on agriculture.

Those who have watched the legislative situation closely say that it's a long-run bet that Congress will write a more liberal definition of "parity" prices, boosting them to include elements of labor and other costs. Since the supports are a percentage of "parity," any kiting of the official parity price would also boost the supports. On the other hand, Congress probably will provide for average supports somewhat less than 90% of the new parity.

The net outcome, hence, will be a government commitment to support farm prosperity (1) higher than the 90-60 ratio varying inversely with the size of surpluses, as written into the Aiken law based upon that law's concept of parity, but (2) lower than the present 90% supports, continuance indefinitely of which is advocated by the committee chairmen.

* * *

Secretary Snyder's qualified optimism for a high volume of business continuing perhaps for years, expressed at the credit conference of the American Bankers Association, is said to reflect the most optimistic government viewpoint on the business outlook. On the other hand, there is little evidence that the government as a whole considers seriously that a downturn in business is in prospect.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

INVESTMENT BANKERS ASSOCIATION OF AMERICA

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Dewar, Robertson & Pancoast
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The Ohio Co., Columbus

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Caldwell Phillips Co., St. Paul

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Collier, Norris & Quinlan, Ltd., Mont.

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Julien Collins & Co., Chicago

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Auchincloss, Parker & Redpath, Wash.

Sherman Ellsworth
Wm. P. Harper & Son & Co., Seattle

Sumner B. Emerson
Morgan Stanley & Co., New York

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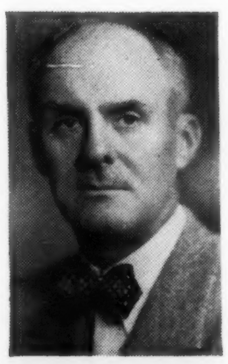
Estes & Co., Inc., Topeka

E. K. Hagemann
G. H. Walker & Co., St. Louis

Edward C. Henshaw
Brush, Slocumb & Co., San Francisco

Milton G. Hulme
Glover & MacGregor, Inc., Pittsburgh



S. R. Kirkpatrick
Kirkpatrick-Pettis Co., Omaha

Francis M. Knight
Continental Ill. Nat'l Bk. & Trust Co., Chicago

B. P. Lester
Lester & Co., Los Angeles

Herman L. Lind
Camp & Co., Portland, Ore.

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Smith, Barney & Co., Philadelphia

George L. Martin
Martin, Burns & Corbett, Inc., Chicago

John C. Maxwell
Tucker, Anthony & Co., N. Y.

Charles B. McDonald
McDonald & Co., Cleveland

J. Marvin Moreland
Rotan, Mosle and Moreland, Galveston

Joseph L. Morris
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Aaron W. Pleasants
The Int'l Trust Co., Denver

R. W. Pressprich, Jr.
R. W. Pressprich & Co., New York

Henry G. Riter, 3rd
Riter & Co., New York

Wickliffe Shreve
Hayden, Stone & Co., New York

Richard W. Simmons
Blunt, Ellis & Simmons, Chicago

Ralph W. Simonds
Baker, Simonds & Co., Detroit

Philip M. Stearns
Estabrook & Co., Boston

Joseph A. Thomas
Lehman Brothers, New York

E. K. Van Horne
Stone & Webster Secur. Corp., N. Y.

Benjamin A. Walter
Bingham, Walter & Hurry, Los Angeles

Harry H. White
White, Hattier & Sanford, New Orleans

Thomas Whiteside
Chace, Whiteside, Warren & Sears, Inc., Boston

Alfred S. Wiltberger
Blyth & Co., Inc., Chicago

Edward H. York, Jr.
Drexel & Co., Philadelphia

New President Takes Office

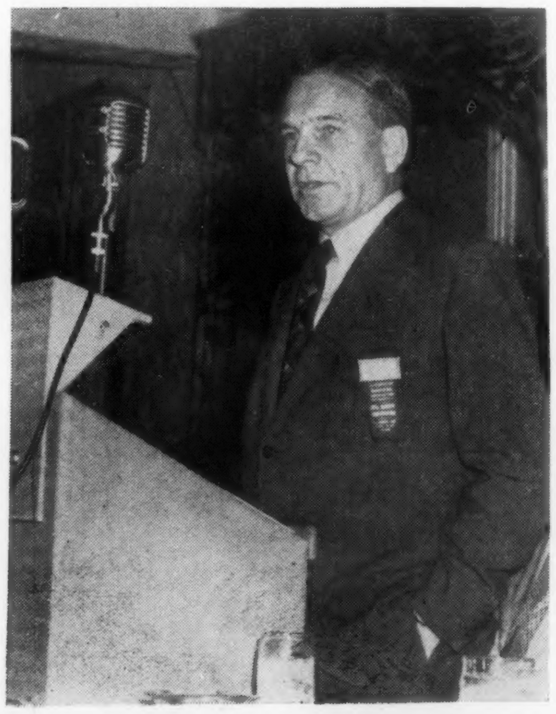
Hal H. Dewar, *Dewar Robertson & Pancoast,* San Antonio, new IBA President, addressing Convention

Hal H. Dewar, *Dewar, Robertson & Pancoast,* San Antonio, new President of the IBA receiving badge of office from Julien H. Collins, *Julien Collins & Co.,* Chicago, the retiring President

Dr. Marcus Nadler, addressing Convention

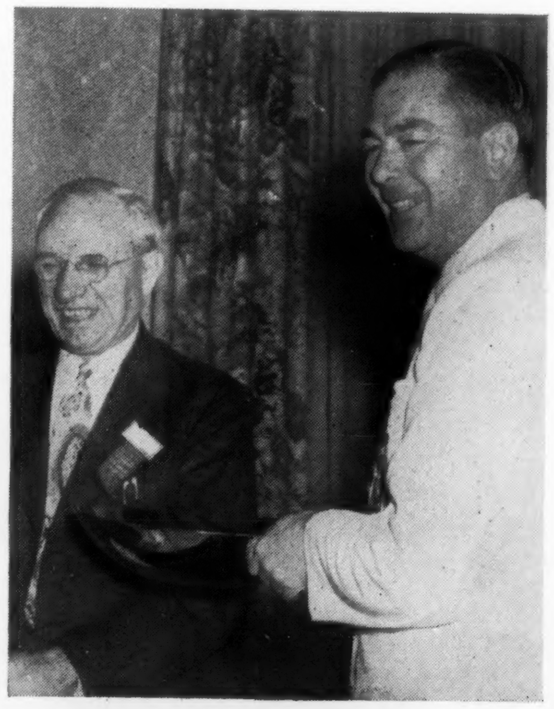
Mr. and Mrs. Hal H. Dewar, *Dewar, Robertson & Pancoast,* San Antonio; Mr. and Mrs. Julien H. Collins, *Julien Collins & Co.,* Chicago

Edward Hopkinson, Jr., *Drexel & Co.,* Philadelphia; Mrs. Clarence B. Randall, Chicago; Benjamin J. Buttenwieser, *Kuhn, Loeb & Co.,* New York



Clarence B. Randall, *Inland Steel Company, Chicago,* addressing the Convention

General Robert L. Eichelberger, Addressing the Convention



Presentation of award to Arthur G. Davis of IBA

At Investment Bankers Association Convention

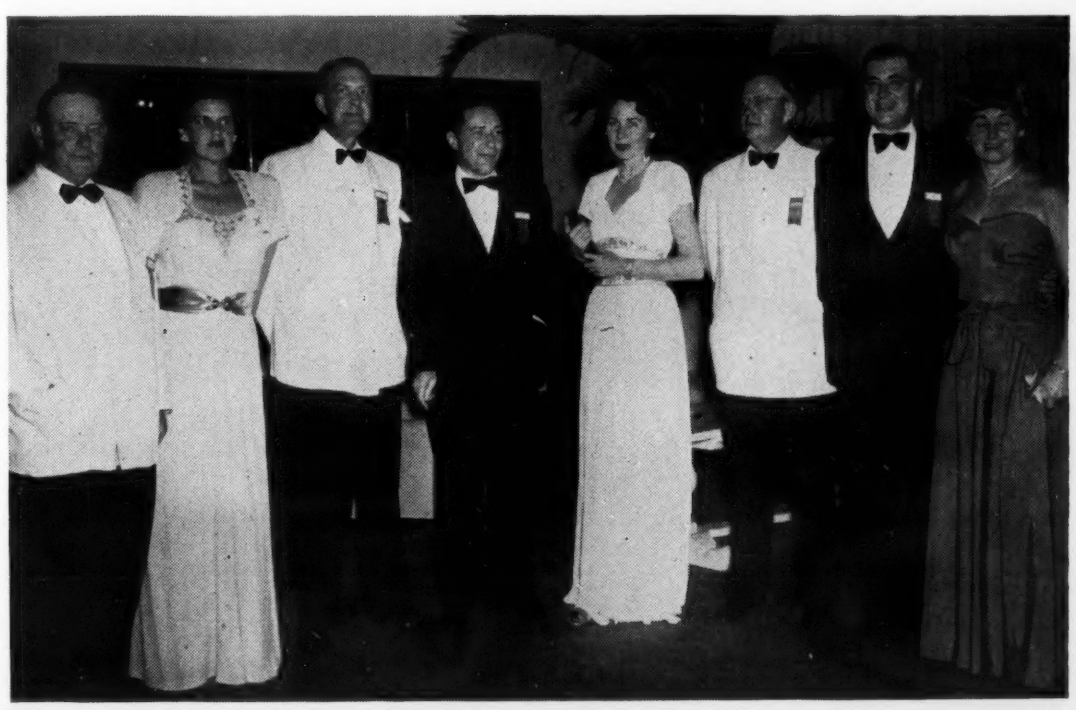
Presidential receiving line: Mrs. Julien Collins; Julien Collins, *Julien Collins & Co.*, Chicago; John F. Fennelly, *Glore, Forgan & Co.*, Chicago; Alden H. Little, *Investment Bankers Association*, Chicago; Roland Merrell, Jr., *Lee Higginson Corp.*, Chicago

Mr. and Mrs. Albert T. Armitage, *Coffin & Burr, Inc.*, Boston; Mr. and Mrs. Edward S. Amazeen, *Coffin & Burr, Inc.*, Boston; Mr. and Mrs. Howard M. Biscoe, Jr., *Whiting, Weeks & Stubbs*, Boston

Frederick W. Straus, *Straus & Blosser*, Chicago; Mrs. Jerome F. Tegeler, St. Louis; Mrs. Milton S. Trost, Louisville; Jerome F. Tegeler *Dempsey-Tegeler & Co.*, St. Louis; Mrs. V. Theodore Low, New York; V. Theodore Low, *Bear, Stearns & Co.*, New York

J. P. Donnally, *Peoples National Bank*, Charlottesville, Va.; Mr. and Mrs. Benjamin A. Walter, *Bingham, Walter & Hurry*, Los Angeles; George Schindhelm, California Bank, Los Angeles; John T. Knox, *Federal Land Banks*, New York; W. Wayne Glover, *California Bank*, Los Angeles

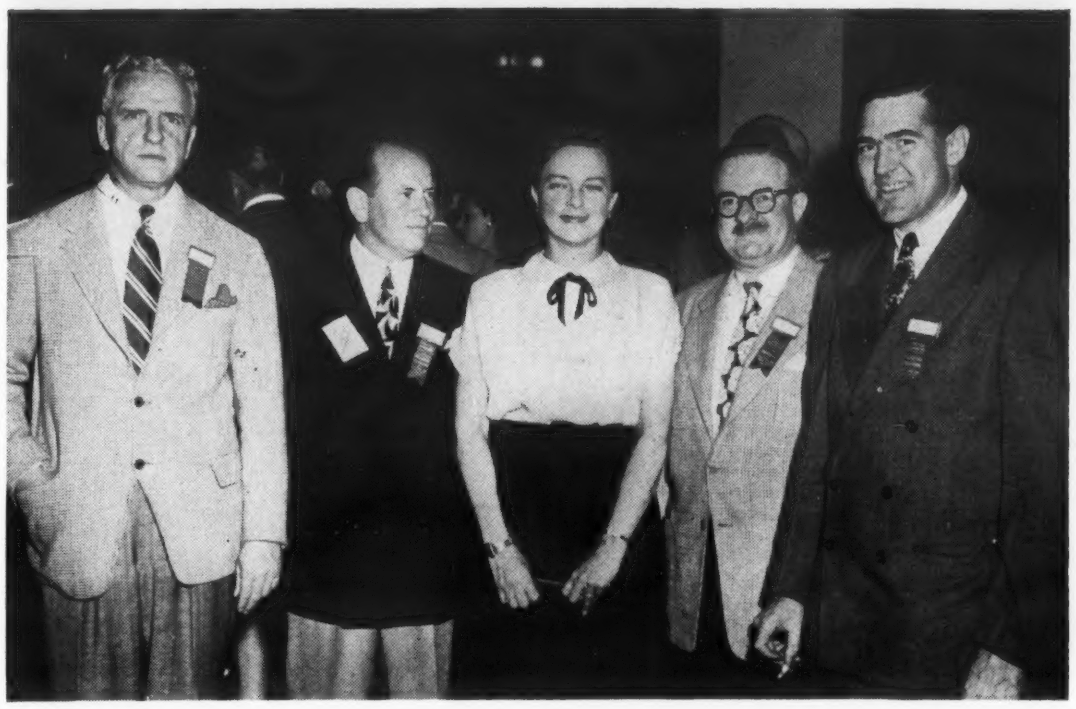
Milton S. Trost, *Stein Bros. & Boyce*, Louisville; Le Roy A. Wilbur, *Stein Bros. & Boyce*, Baltimore; Mrs. Milton S. Trost; Walter C. Pohlhaus, *Mackubin, Legg & Co.*, Baltimore; Palmer Watling, *Watling, Lerchen & Co.*, Detroit



John H. Rauscher, *Rauscher, Pierce & Co.*, Dallas; Mr. and Mrs. Waldo W. Mallory, *Clement A. Evans & Co.*, Atlanta; E. Cummings Parker, *Glore, Forgan & Co.*, Chicago; Mrs. Wickliffe Shreve, New York City; Clement A. Evans, *Clement A. Evans & Co.*, Atlanta; Edward H. Nelson, *Kidder, Peabody & Co.*, New York; Mrs. J. Emerson Thors, New York

In Hollywood Beach, Florida

F. D. Farrell, *City National Bank & Trust Co.*, Kansas City, Mo.; Mrs. W. T. King, Boston; John S. Linen, *Chase National Bank of New York;* W. Paul Harper, *Boatmen's National Bank of St. Louis;* James C. Ward, *Third National Bank*, Nashville



David L. Skinner, *Harriman Ripley & Co.*, New York City; Brownlee O. Currey, *Equitable Securities Corp.*, Nashville; Mrs. Eugene Black, Washington, D. C.; James K. Miller, *Dominion Securities Corp.*, New York City; Daniel T. Pierce, Jr., *Hirsch & Co.*, New York

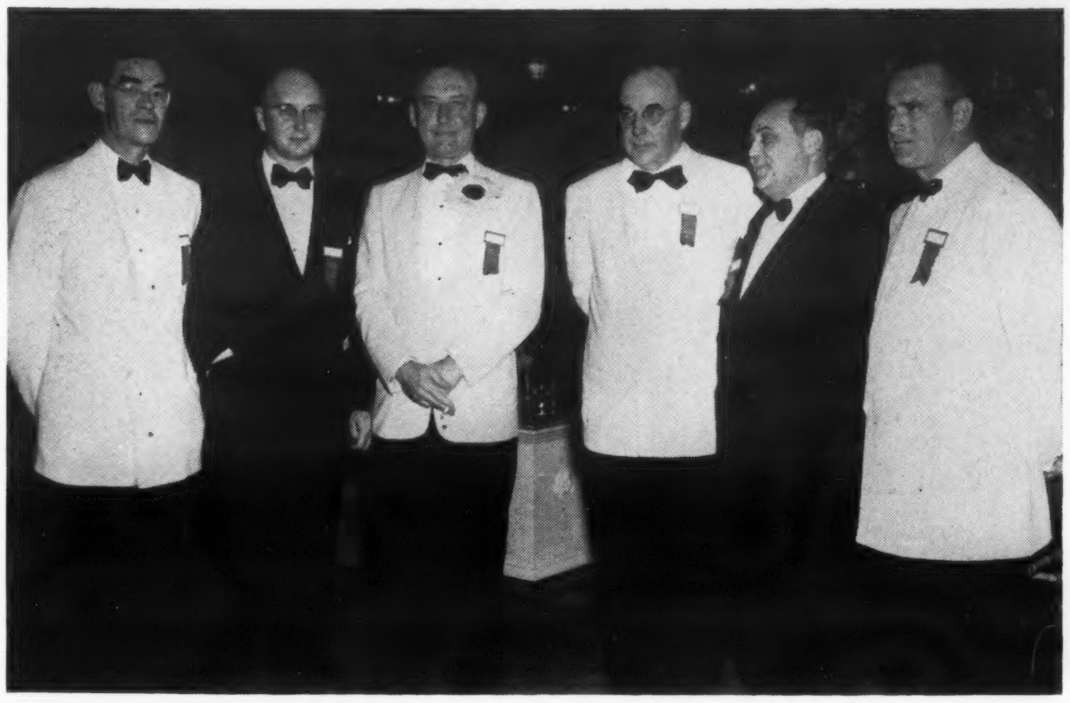
Walter Creely, *Goldman, Sachs & Co.*, St. Louis; Salim Lewis, *Bear, Stearns & Co.*, New York City; Mrs. F. Brian Reuter, Pittsburgh; James Abrams, *Allen & Co.*, New York City

Frederick T. Seving, *Butcher & Sherrerd*, Philadelphia; Mr. and Mrs. Milton G. Hulme, *Glover & MacGregor*, Pittsburgh; Mr. and Mrs. William D. Buzby, Jr., *Butcher & Sherrerd*, Philadelphia

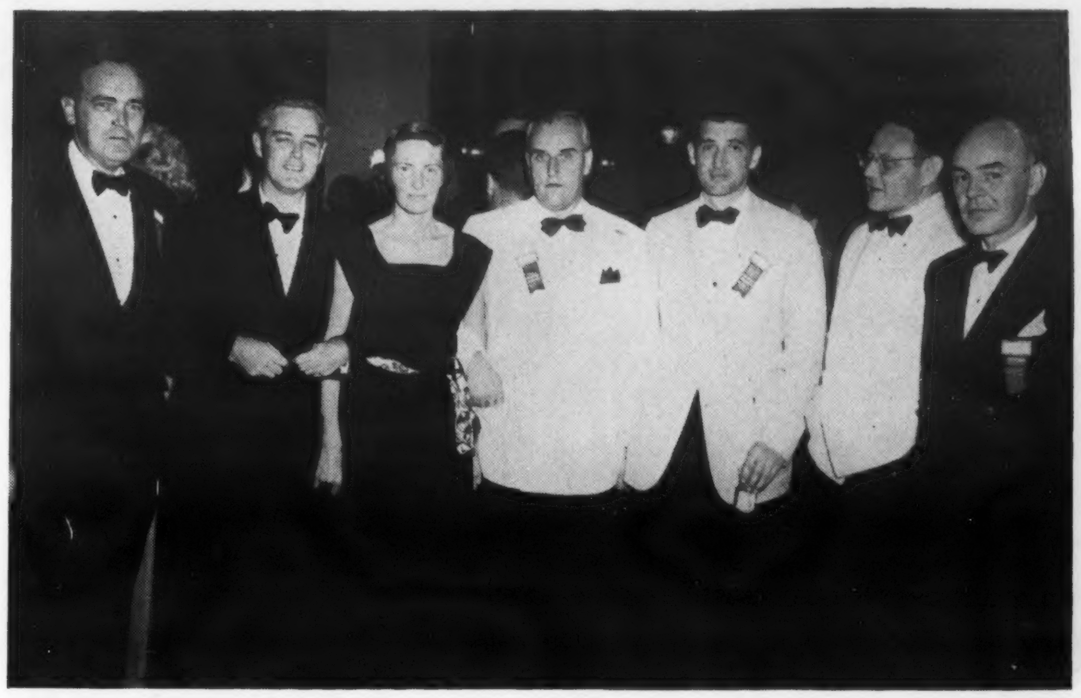
Mr. and Mrs. J. Emerson Thors, *Kuhn, Loeb & Co.*, New York City; Herbert V. B. Gallager, *Yarnall & Co.*, Philadelphia; Willard S. Boothby, *E. H. Rollins & Sons*, Philadelphia; Herman A. Feldmann, *Geyer & Co., Inc.*, New York; Robert Stevenson, 3rd, *Investment Bankers Association*, Chicago

J. W. Means, *Courts & Co.*, Atlanta; Sherman Ellsworth, *Wm. P. Harper & Sons & Co.*, Seattle; Mrs. Edwin B. Horner; Edwin B. Horner, *Scott, Horner & Mason*, Lynchburg, Va.; Mr. and Mrs. Sanders Shanks, Jr., *Bond Buyer*, New York City

December 5 to December 10, 1948

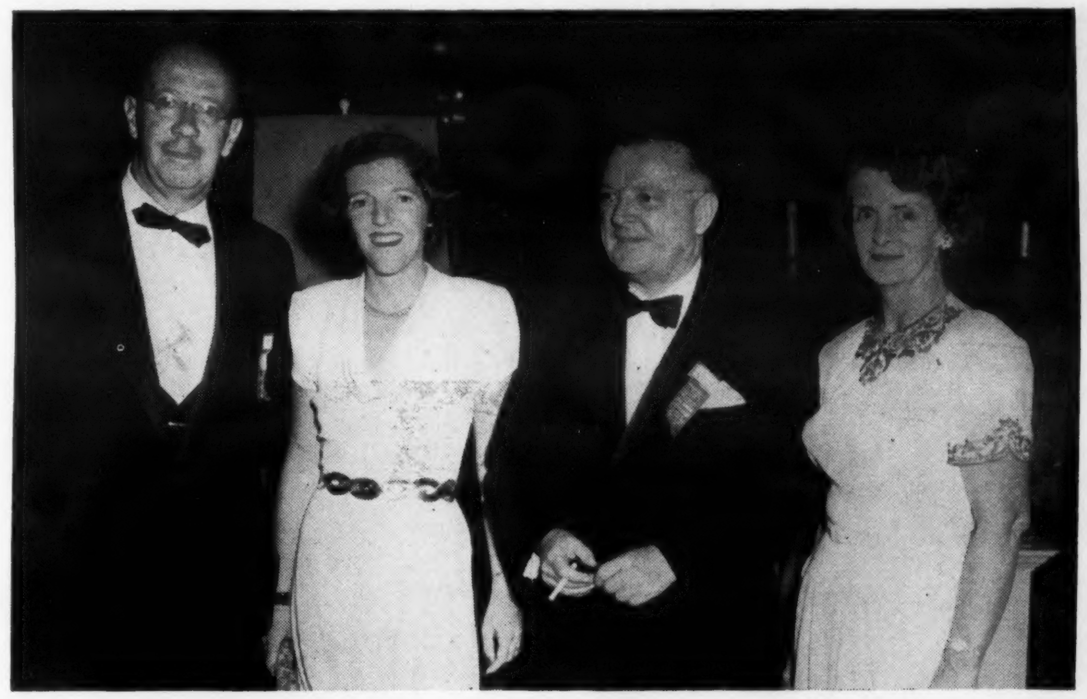


Harold J. Schluter, *First National Bank of Chicago*, New York; Charles A. Capek, *Lee Higginson Corporation*, Chicago; Edward J. Jennett, *First National Bank*, Chicago; John J. Quail, *Quail & Co.*, Davenport; John G. Heimerdinger, *Walter, Woody & Heimerdinger*, Cincinnati; Robert F. Bender, *Wachob-Bender Corporation*, Omaha



Leslie J. Fahey, *Fahey, Clark & Co.*, Cleveland; Robert B. Blyth, *National City Bank*, Cleveland; Mrs. Leslie J. Fahey; Frank B. Reid, *Maynard H. Murch & Co.*, Cleveland; William McGuirk, *Kuhn, Loeb & Co.*, New York; William H. Clark, *Merrill, Turben & Co.*, Cleveland; Byron R. Mitchell, *Society for Savings*, Cleveland

Mr. and Mrs. Addison W. Arthurs, *Arthurs, Lestrange & Klima*, Pittsburgh; John McG. Dalenz, *Calvin Bullock*, New York City; Harry M. Ufford, *Calvin Bullock*, Atlanta



Carl T. Naumburg, *Stern, Lauer & Co.*, New York; William M. Cahn, Jr., *Henry Herrman & Co.*, New York; Conrad H. Liebenfrost, *Stern, Lauer & Co.*, New York; Mrs. Herman B. Joseph, *T. H. Jones & Co.*, Cleveland

Mr. and Mrs. Bertram M. Goldsmith, *Ira Haupt & Co.*, New York City; Mr. and Mrs. Leon Lees, *Ira Haupt & Co.*, New York City

Mr. and Mrs. Norman B. Ward, *Norman Ward & Co.*, Pittsburgh; Mr. and Mrs. Herman L. Lind, *Camp & Co.*, Portland, Oregon

Membership Attendance at New Record

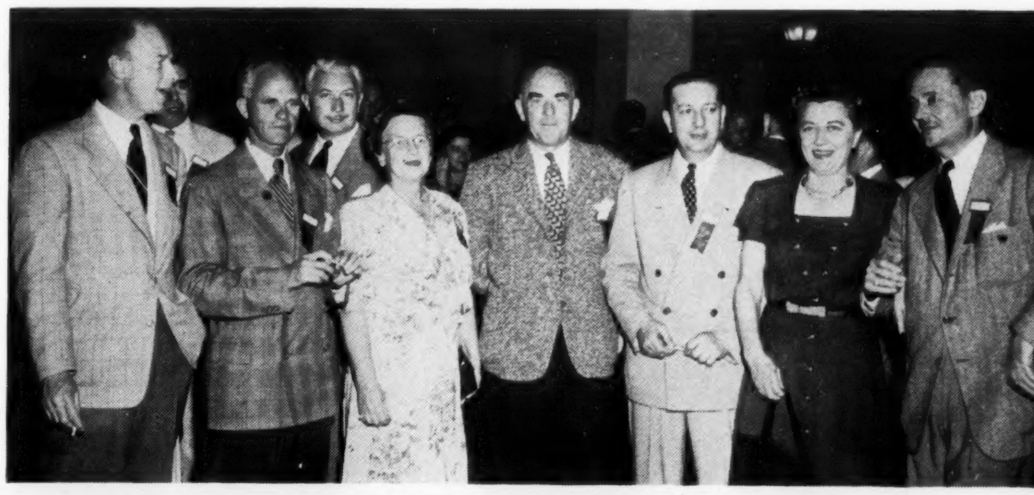
William J. Price, 3rd, *Alex. Brown & Sons,* Baltimore; Mrs. Edward Glassmeyer, Jr., *Blyth & Co., Inc.*, New York; Charles McK. Lynch, Jr., *Moore, Leonard & Lynch*, Pittsburgh; Bayard Dominick II, *Dominick & Dominick,* New York

James K. Miller, *Dominion Securities Corp.*, New York; Ernest O. Dorbritz, *Moore, Leonard & Lynch*, Pittsburgh; Palmer Watling *Watling, Lerchen & Co.*, Detroit; K. P. Tsolainos, *Baker, Weeks & Hardin,* New York City

Austin A. Brown, *Dean Witter & Co.*, New York; Percy M. Stewart, *Kuhn, Loeb & Co.*, New York

Herbert I. Shaw, *Vance, Sanders & Co.*, Boston; Mr. and Mrs. Walter C. Pohlhaus, *Mackubin, Legg & Co.*, Baltimore

Harry M. Ufford, *Calvin Bullock*, Atlanta; Gerald P. Peters *Peters, Writer & Christensen*, Denver; Mrs. Howard S. Wheeler, Orlando, Fla.; Herman A. Feldman, *Geyer & Co., Inc.*, New York City; Howard S. Wheeler, *Leedy, Wheeler & Alleman*, Orlando

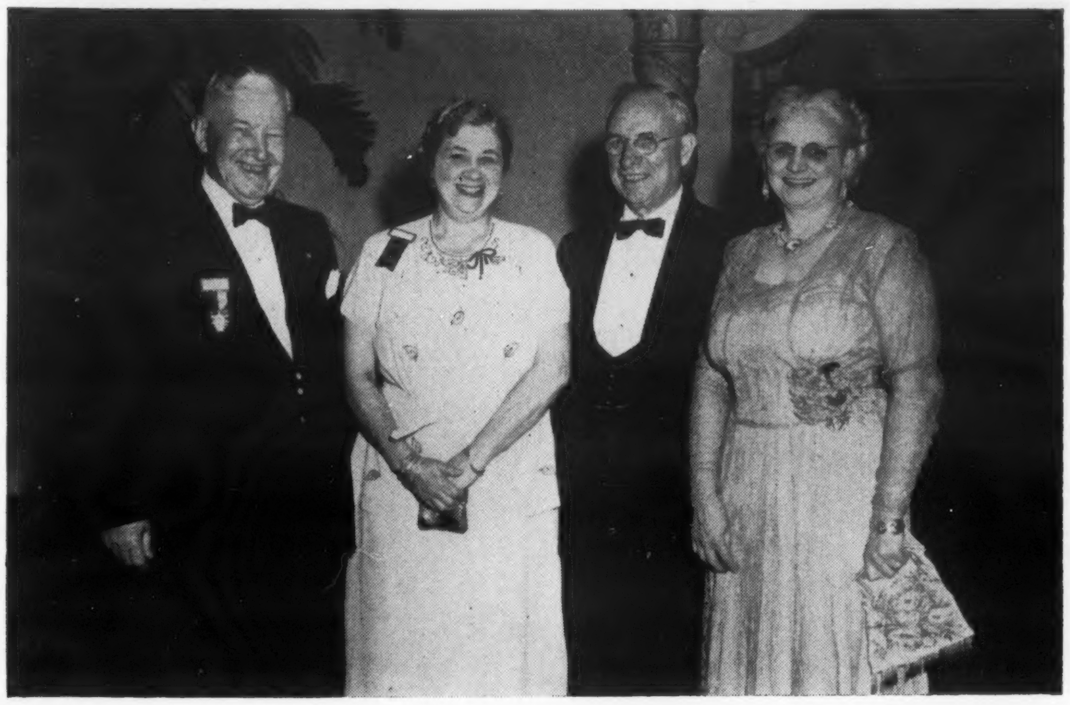


Robert E. Clark, *Calvin Bullock*, New York; Richard A. Bigger, *R. S. Dickson & Co.*, Charlotte, N. C.; Mrs. Norman B. Ward, Pittsburgh; Earl F. Waterman, *Earl F. Waterman & Co.*, Seattle; G. L. Ludcke, *Putnam Fund Distributors*, Boston; Mrs. Earl F. Waterman, Seattle; Herbert R. Anderson, *Distributors Group*, New York

Mahlon O. Bradley, *Paul H. Davis & Co.*, Chicago; Mrs. Malon C. Courts, Atlanta; Mrs. Waldo W. Mallory, Atlanta; Mr. and Mrs. David H. Callaway, Jr., *First of Michigan Corp.*, New York

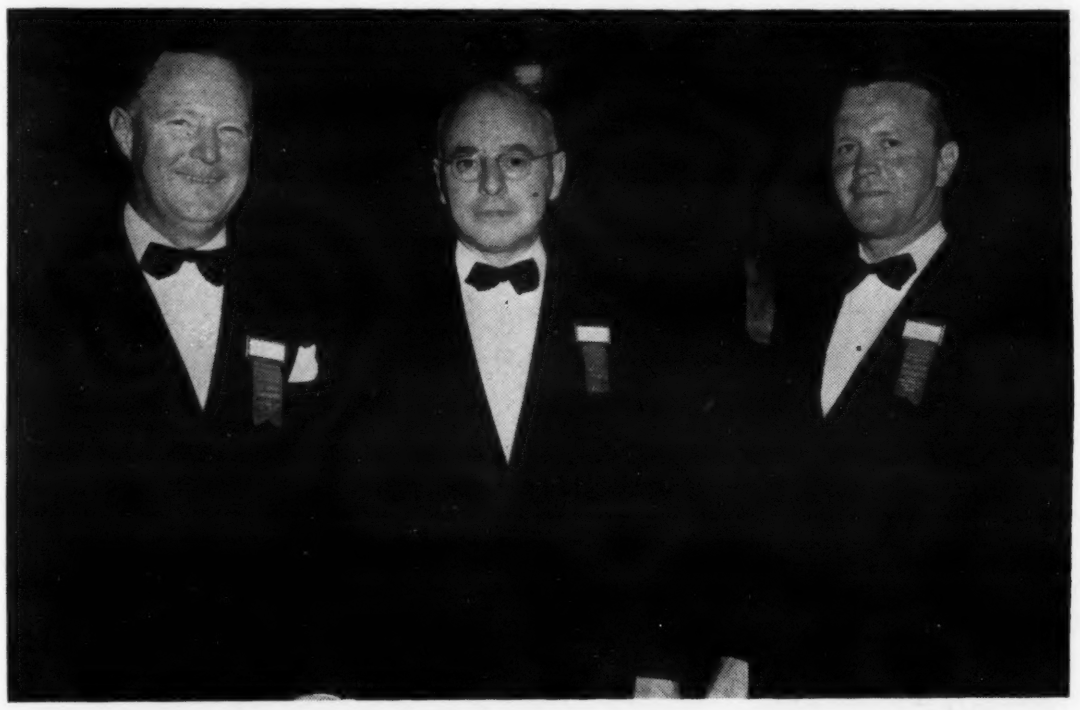
W. Rex Cromwell, *Dallas Rupe & Son*, Dallas; Mrs. Henry G. Riter, 3rd, New York; Ewing T. Boles, *The Ohio Company*, Columbus; Wallace M. McCurdy, *Thayer, Baker & Co.*, Philadelphia; Mr. and Mrs. Henry R. Hallowell, *Hallowell, Sulzberger & Co.*, Philadelphia; Mrs. Ewing T. Boles; Henry G. Riter, 3rd, *Riter & Co.*, New York City; Mrs. Wallace M. McCurdy

Gala Evenings at Convention

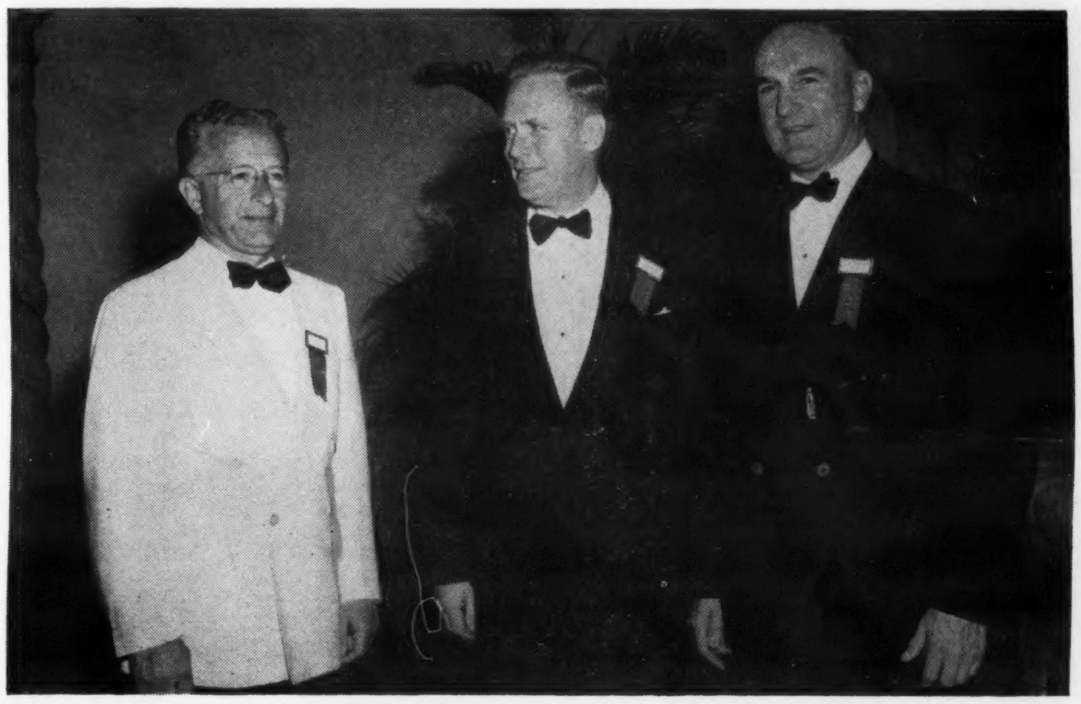


Mr. and Mrs. Kelton E. White, *G. H. Walker & Co.*, St. Louis; Mr. and Mrs. Arthur G. Davis, Field Secretary, *Investment Bankers Association*

Mr. and Mrs. Cornelius Shields, *Shields & Co.*, New York City; Mr. and Mrs. Eugene P. Barry. *Shields & Co.*, New York

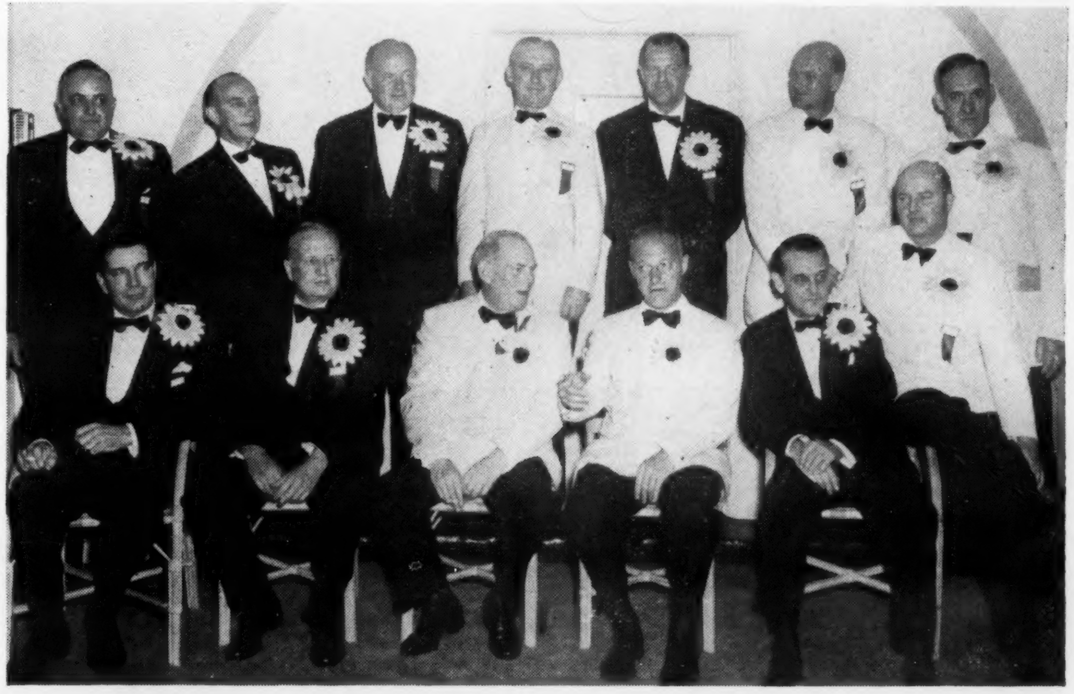


Elmer A. Dittmar, *Dittmar & Co*, San Antonio; George F. Noyes, *Illinois Company*, Chicago; Russell R. Rowles, *Rowles, Winston & Co.*, Houston



Elvin K. Popper, *I. M. Simon & Co.*, St. Louis; Myron Ratcliffe, *Lehman Brothers*, New York City; Walter W. Ainsworth, *Metropolitan St. Louis Company*, St. Louis

Standing: Alfred B. Averell, *Bache & Co.*, New York City; John H. Edwards, *R. J. Edwards, Inc.*, Oklahoma City, Okla.; Robert E. Clark, *Calvin Bullock*, New York City; William N. Edwards, *William N. Edwards Co.*, Ft. Worth, Tex.; Thomas Beckett, Jr., *First Southwest Company*, Dallas; Adolph Woolner, *Bache & Co.*, New York City; John McG. Dalenz. *Calvin Bullock*, New York; Walter W. Cooper, *F. S. Smithers & Co.*, New York. Seated: Mrs. Robert E. Clark; Mrs. Adolph Woolner; Mrs. William N. Edwards; Mrs. Thomas Beckett



Jim Daisy, Harry H. White, *White, Hattier & Sanford*, New Orleans; Walter J. Creely, *Goldman, Sachs & Co.*, St. Louis; Laurence M. Marks, *Laurence M. Marks & Co.*, New York; Edward J. Jennett, *First National Bank*, Chicago; Alfred S. Wiltberger, *Blyth & Co., Inc.*, New York; Thomas Beckett, Jr., *First Southwest Company*, Dallas; Wickliffe Shreve, *Hayden, Stone & Co.*, New York City; Robert K. McConnaughey, *Securities & Exchange Commission*, Washington, D. C.; John S. Loomis, *Illinois Company*, Chicago; Richard A. Kebbon, *Kebbon, McCormick & Co.*, Chicago; Robert H. Craft, *Guaranty Trust Company*, New York; Hazen S. Arnold, *Braun, Bosworth & Co.*, Toledo; Richard W. Simmons, *Blunt, Ellis & Simmons*, Chicago

Business Meetings Heavily Attended

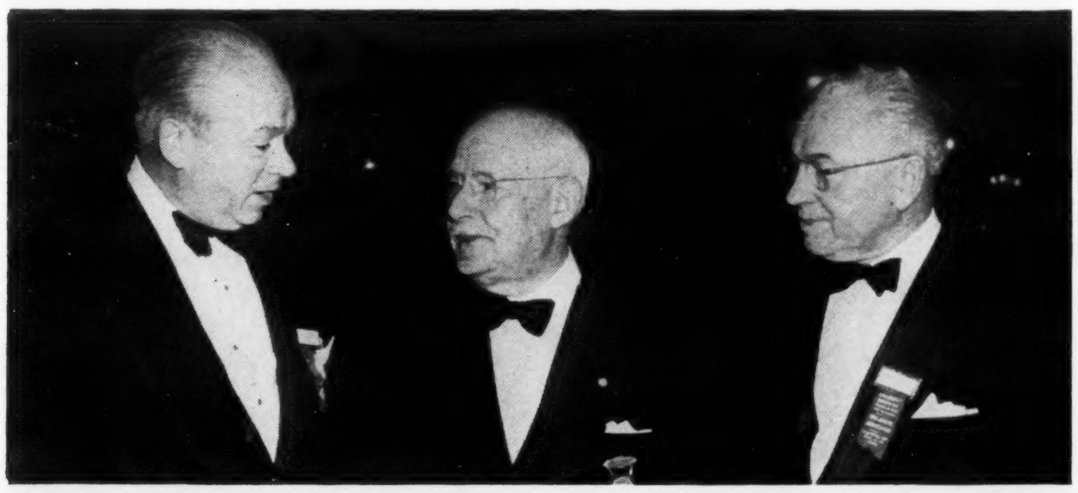
Mark Davids, *Lester & Co.*, Los Angeles; Paul B. Hanrahan, *Hanrahan & Co.*, Worcester, Mass.; George S. McEwan. *Paul H. Davis & Co.*, Chicago; Robert H. Warren, *Geyer & Co., Inc.*, Boston

F. Vincent Reilly, *Commercial & Financial Chronicle*, New York; Mrs. Richard C. Noel; Clair F. Cassell *C. F. Cassell & Co.*, Charlottesville, Va.; Richard C. Noel, *Van Alstyne, Noel & Co.*, New York City

Salim Lewis *Bear, Stearns & Co.*, New York City; Mr. and Mrs. Jerome F. Tegeler, *Dempsey-Tegeler & Co.*, St. Louis; F. Brian Reuter, *Mellon National Bank*, Pittsburgh; Mrs. V. Theodore Low, New York City; W. H. Weed, Jr., *Union Securities Corp.*, New York City

Elvin K. Popper, *I. M. Simon & Co.*, St. Louis; Walter J. Creely, *Goldman, Sachs & Co.*, St. Louis; E. Kenneth Hageman, *G. H. Walker & Co.*, St. Louis; Mr. and Mrs. Jerome F. Tegeler, *Dempsey-Tegeler & Co.*, St. Louis; F. Kenneth Stephenson, *Goldman, Sachs & Co.*, New York

Sidney L. Parry, Executive Vice-President, *Association of Stock Exchange Firms*, New York City; William A. Johnson, *Mason, Moran & Co.*, Milwaukee; Harold P. Goodbody, *Goodbody & Co.*, New York City, President *Association of Stock Exchange Firms*



Harry A. McDonald, *Securities & Exchange Commission*, Washington D. C.; John A. Prescott, *Prescott, Wright, Snider Co.*, Kansas City; Charles B. McDonald, *McDonald & Co.*, Cleveland

Mr. and Mrs. Thomas Beckett, *First Southwest Company*, Dallas; Mr. and Mrs. Joseph H. King, *Union Securities Corp.*, New York

Mr. and Mrs. Robert L. Osgood, *Vance, Sanders & Co.*, Boston; Herbert I. Shaw, *Vance, Sanders & Co.*, Boston

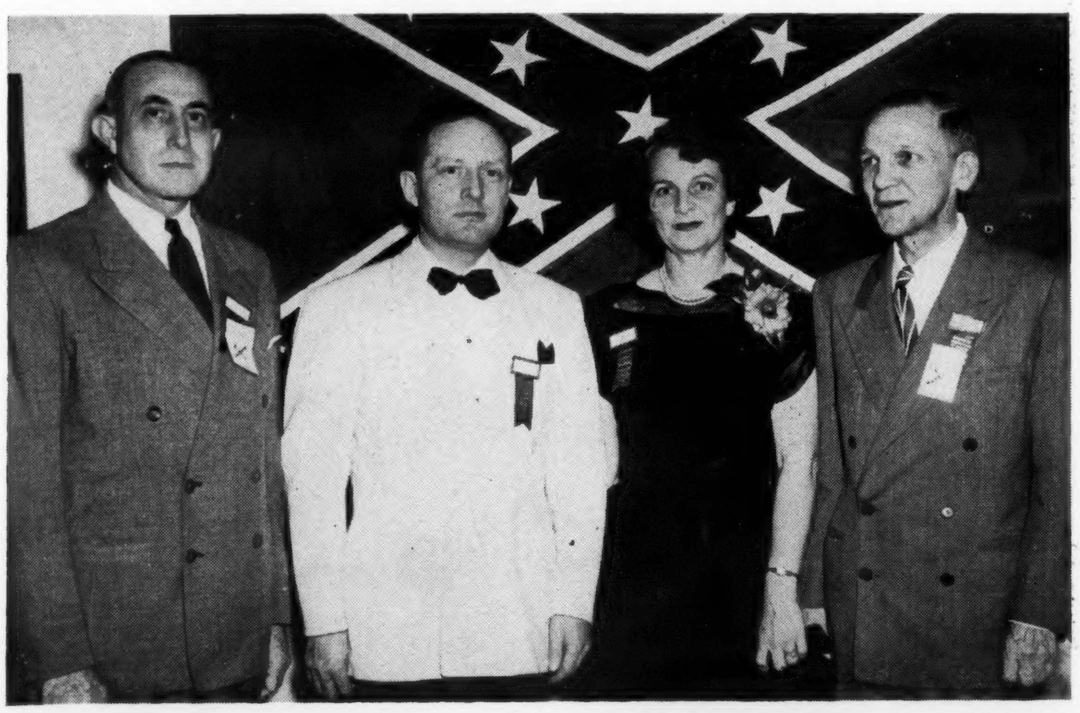
The Rebel Room

Mrs. Mortimer A. Cohen, Montgomery, Ala; Mrs. Samuel L. Varnedoe, Savannah; Mrs. H. Wilson Arnold, New Orleans; Mrs. Julian A. Space, Savannah; Mrs. Waldo W. Mallory, Atlanta; Mrs. John P. Labouisse, New Orleans; Mrs. Rucker Agee, Birmingham

Julian A. Space, *Johnson, Lane, Space & Co.*, Savannah; Thomas M. Johnson, *Johnson, Lane, Space & Co.*, Savannah; Waldo W. Mallory, *Clement A. Evans & Co.*, Atlanta; Samuel Varnedoe, *Varnedoe, Chisholm & Co.*, Savannah; Hugh Carter, *Courts & Co.*, Atlanta

John P. Labouisse *Howard, Labouisse, Friedrichs & Co.*, New Orleans; Errol E. Buckner, *National Bank of Commerce*, New Orleans; James Roddy, *Scharff & Jones, Inc.*, New Orleans; Reginald M. Schmidt, *Blyth & Co., Inc.*, New York City; Harry H. White, *White, Hattier & Sanford*, New Orleans; Wm. Russell Barrow, *Barrow, Leary & Co.*, Shreveport; H. Wilson Arnold, *Well & Arnold*, New Orleans

Joseph W. Sener, *Mackubin, Legg & Co.*, Baltimore; George F. Noyes, *Illinois Company*, Chicago, Chairman of the State Legislation Committee, IBA; Ed S. Lewis, Jr., *Lewis & Co.*, Jackson, Miss.; Samuel L. Varnedoe, *Varnedoe, Chisholm & Co.*, Savannah, Chairman of the Southern Group of the State Legislation Committee, IBA; John P. Labouisse, *Howard, Labouisse, Friedrichs & Co.*, New Orleans



Mortimer Cohen, *Stern, Agee & Leach*, Montgomery, Ala.; Early F. Mitchell, *First National Bank of Memphis;* Mrs. T. M. Johnson, Savannah; Rucker Agee, *Stern, Agee & Leach*, Birmingham

Mr. and Mrs. Jesse Donnally, *Peoples National Bank*, Charlottesville, Va.; Mrs. Clair Cassell, Charlottesville, Va.; Rockerick D. Moore, *Branch, Cabell & Co.*, Richmond, Va.

Conventioneers Bask in the Sun

Mrs. W. L. Lyons, Jr., Louisville, Ky.; Mr. and Mrs. Frank S. Yantis, *F. S. Yantis & Co.*, Chicago; Mr. and Mrs. Warren H. Crowell, *Crowell, Weedon & Co.*, Los Angeles; Carey S. Hill, *Hill Richards & Co.*, Los Angeles

Harley L. Rankin, *Girard Trust Co.*, Philadelphia; Mrs. Morton Jenks, Philadelphia; Alfred B. Averell, *Bache & Co.*, New York City; Ralph W. Simonds, *Baker, Simonds & Co.*, Detroit; Morton Jenks, *Jenks, Kirkland & Co.*, Philadelphia

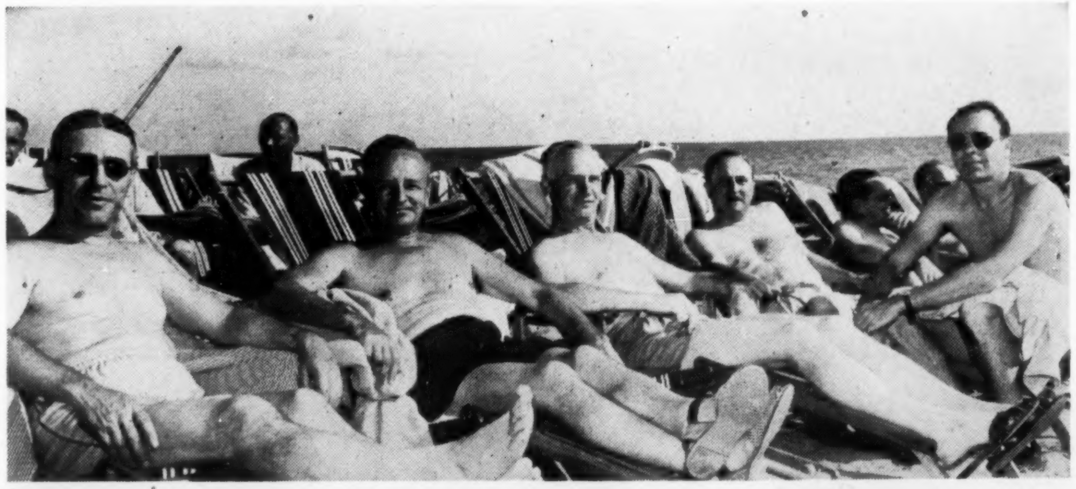
Mr. and Mrs. Robert E. Broome. *Guaranty Trust Company*, New York; Mrs. Gordon B. Du Val, New York; Gen. Robert L. Eichelberger, Washington, D. C.

Mrs. Fred W. Hudson. Cleveland, Ohio; Mrs. C. McK. Lynch, Jr., Pittsburgh; Mrs. Milton G. Hulme, Pittsburgh; Mrs. V. Theodore Low, New York City

Mrs. F. Brian Reuter, Pittsburgh; Mr. and Mrs. Emil C. Williams, *Chemical Bank & Trust Co.*, New York

Howard Finney, Jr., *Bear, Stearns & Co.*, New York City; Mrs. Sidney Blake, Philadelphia; Mrs. Geo. W. Elkins Jr., Philadelphia; Mrs. Howard Finney

Mrs. William N. Edwards, *William N. Edwards & Co.*, Ft. Worth, Tex.; Paul K. Van Winkle, *Paine, Webber, Jackson & Curtis*, Chicago; Mr. and Mrs. Adolph Woolner, *Bache & Co.*, New York City; Mrs. Van Winkle

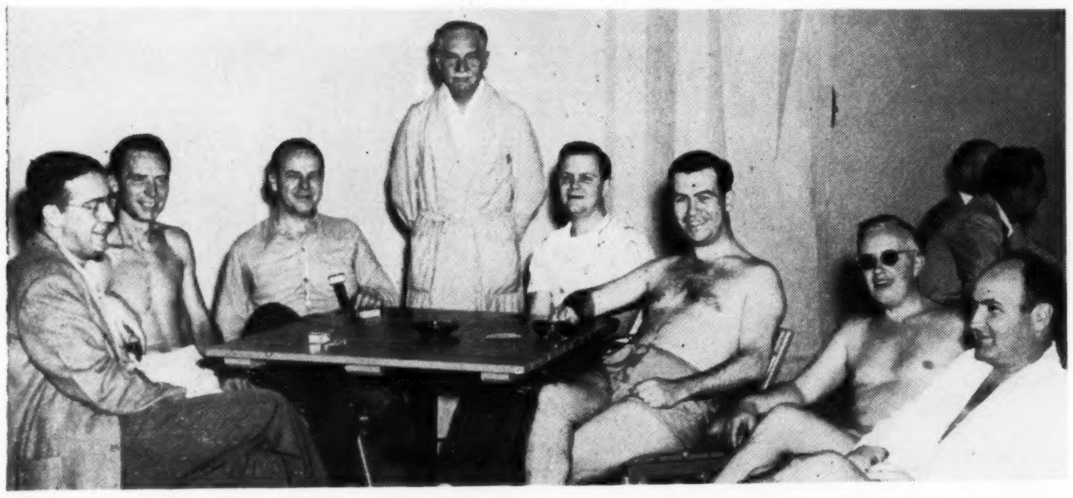


Bruce DeSwarte, *Continental Illinois Bank*, Chicago; W. Manning Barr, *Barr Brothers & Co.*, New York; Robert V. Wehrheim, *Philadelphia National Bank*, Philadelphia; Arthur R. Robinson, *Fidelity Union Trust Company*, Newark; William M. Cahn, Jr., *Henry Herrman & Co.*, New York

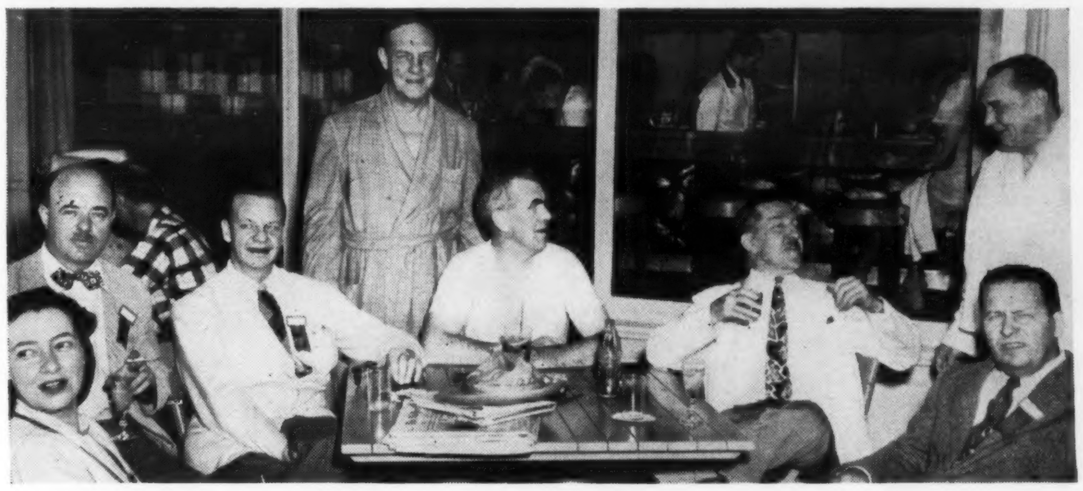
Fun on the Florida Beach

William N. Edwards, *William N. Edwards & Co.*, Ft. Worth, Tex.; Paul K. Van Winkle, *Paine, Webber, Jackson & Curtis*, Chicago; Adolph Woolner, *Bache & Co.*, New York City

Clifton L. Nourse, *The Illinois Company*, Chicago; George F. Noyes, *The Illinois Co.*, Chicago; Robert F. Bender, *Wachob-Bender Corp.*, Omaha, Neb.; Carl W. Jackson, *Harris, Hall & Co.*, Chicago; Charles A. Capek, *Lee Higginson Corp.*, Chicago

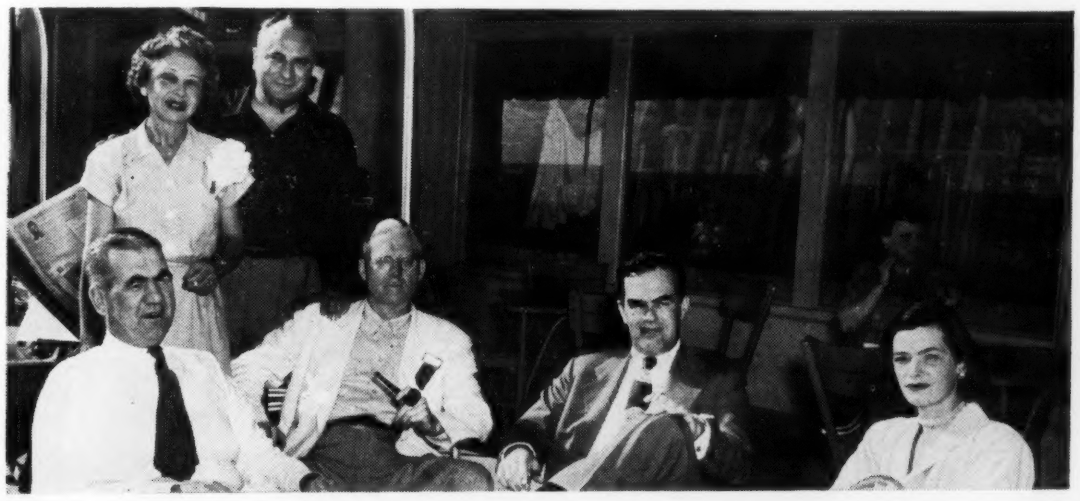


Edward J. Meyers, *Laidlaw & Co.*, New York City; Howard Finney, Jr., *Bear, Stearns & Co.*, New York City; Frank L. Lucke, *Laidlaw & Co.*, New York City; F. C. Farrell *City National Bank & Trust Co.*, Kansas City; James Haller, *J. C. Bradford & Co.*, New York City; Frederick J. Bolton, *H. V. Sattley & Co., Inc.*, Detroit; W. Paul Harper, *Boatmen's National Bank*, St. Louis; David H. Callaway, Jr., *First of Michigan Corp.*, New York City

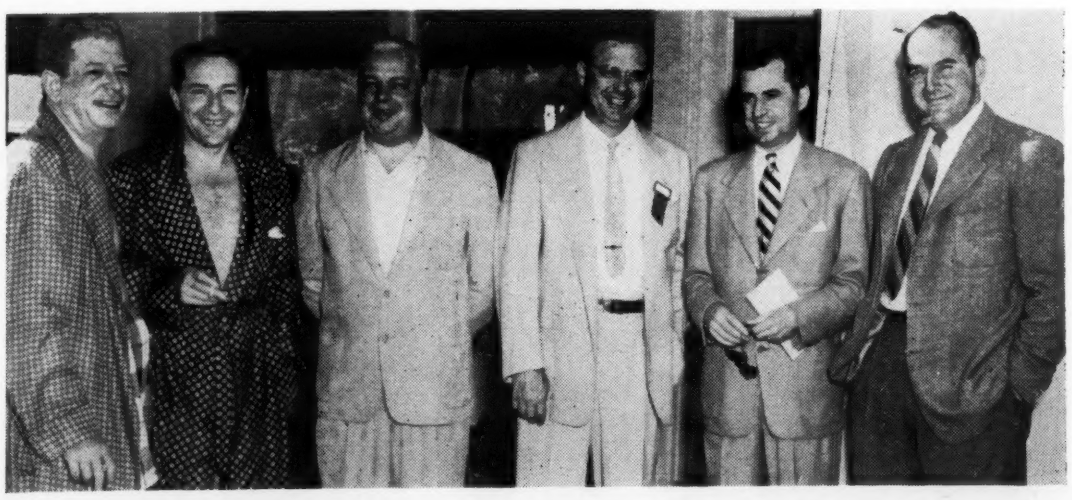


Mrs. E. S. Johnston, New York City; W. H. R. Jarvis, *McLeod, Young, Weir, Inc.*, New York City; Edward S. Johnston, *Wood, Gundy & Co.*, New York City; Ralph Chapman, *Farwell, Chapman & Co.*, Chicago; Irving D. Fish, *Smith, Barney & Co.*, New York City; Mason B. Starring *Graham, Parsons & Co.*, New York City; Springer Brooks, *Piper, Jaffray & Hopwood*, St. Paul, Minn.; Milton G. Hulme, *Glover & McGregor*, Pittsburgh

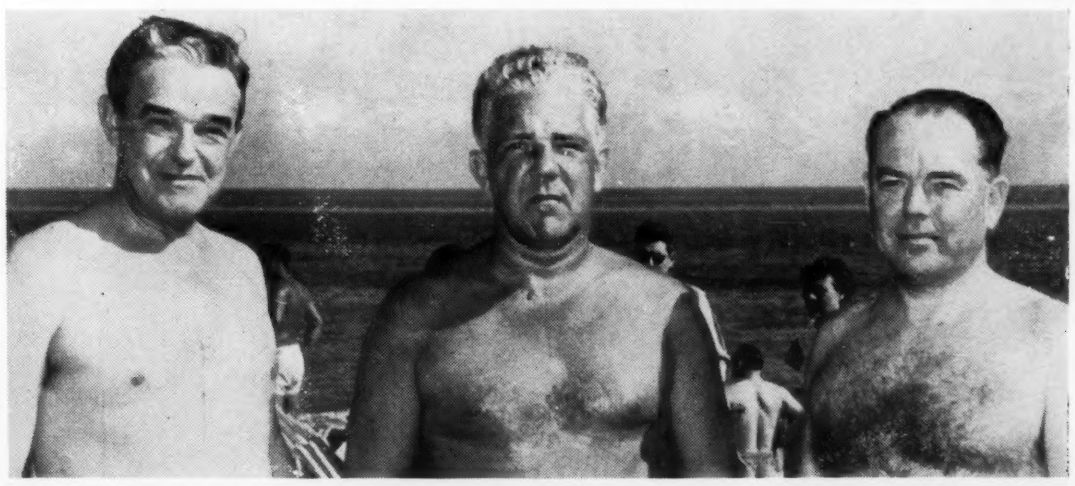
Douglas R. Hansel, *Wertheim & Co.*, New York City; Charles C. Werner, *Wertheim & Co.*, New York City; Mr. and Mrs. Sewell S. Watts. Jr., *Baker, Watts & Co.*, Baltimore; James B. Downing, *Baumgartner, Downing & Co.*, Baltimore; John Redwood, Jr., *Baker, Watts & Co.*, Baltimore



Irving D. Fish, *Smith, Barney & Co.*, New York; Mr. and Mrs. John W. Corrington, *Paine, Webber, Jackson & Curtis*, Chicago; David J. Lewis, *Paine, Webber, Jackson & Curtis*, New York City; Mr. and Mrs. Dumont G. Dempsey, *Newhard, Cook & Co.*, St. Louis



W. Rex Cromwell, *Dallas Rupe & Son*, Dallas; E. Cummings Parker, *Glore, Forgan & Co.*, Chicago; James S. Abrams, Jr., *Allen & Co.*, New York; F. Monroe Alleman, *Leedy, Wheeler & Alleman*, Orlando, Fla.; W. Frederick Spence, *Robert Hawkins & Co.*, Boston; Robert H. Warren, *Geyer & Co., Inc.*, Boston

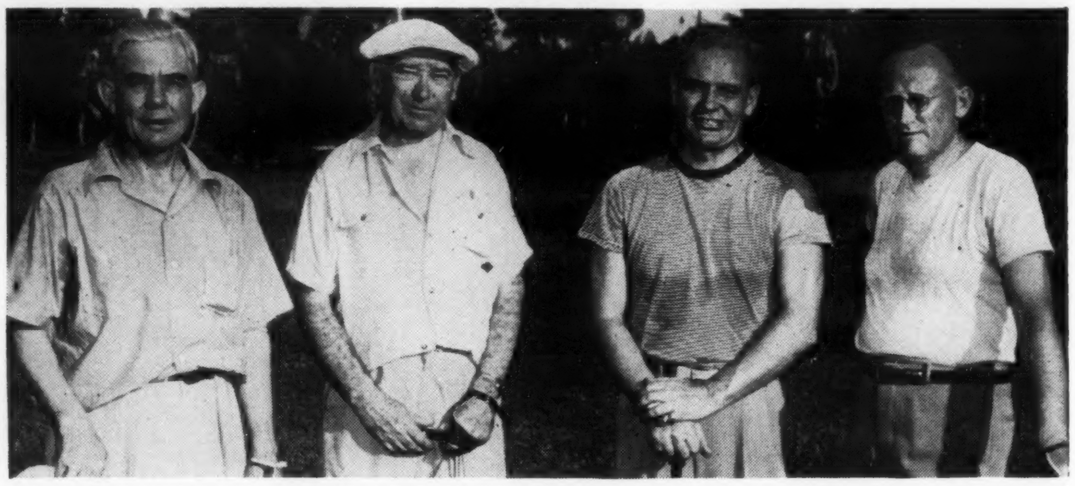


James M. Pigott, *Central Republic Co.*, Chicago; Franklin Schmick, *Straus & Blosser*, Chicago; Mark Davids, *Lester & Co.*, Los Angeles

Championship Golf Played Again

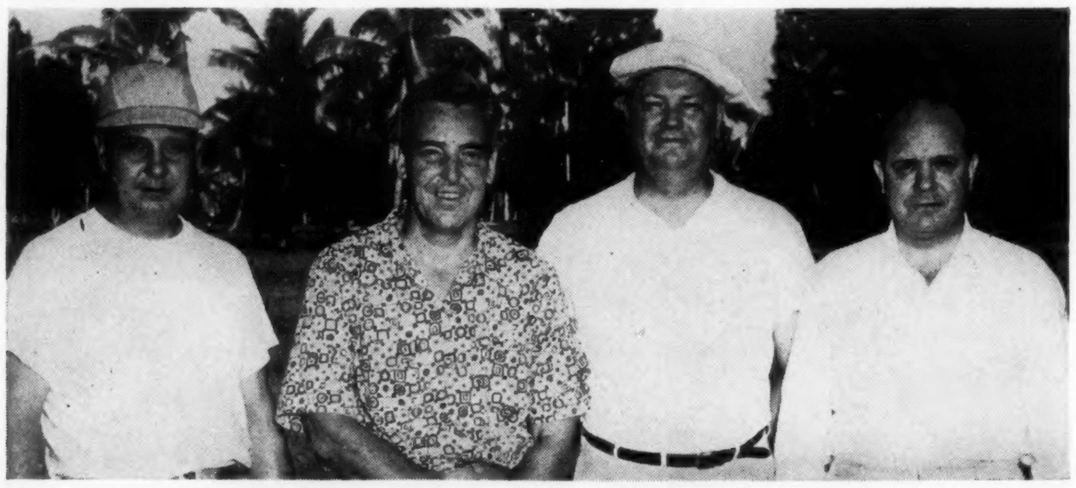
Hudson B. Lemkau, *Morgan Stanley & Co.*, New York City; Edward K. Dunn, *Robert Garrett & Sons*, Baltimore; Thomas Whiteside, *Chace, Whiteside, Warren & Sears*, Boston; J. Earle Jardine, Jr., *Wm. R. Staats Co.*, Los Angeles

Mr. and Mrs. Gordon B. Duval, *Guaranty Trust Co.*, New York City; Frederick B. Carpenter, *John Nuveen & Co.*, Chicago; Dana F. Baxter, *Hayden, Miller & Co.*, Cleveland

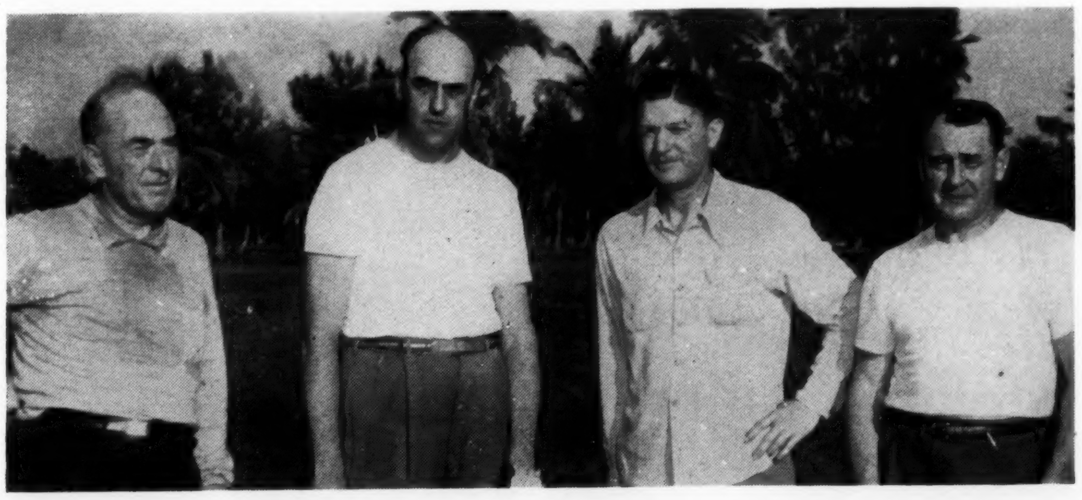


Fred W. Gardner, *Reinholdt & Gardner*, St. Louis; C. C. Clayton, *Clayton Securities Corp.*, Boston; Charles R. Perrigo, *Hornblower & Weeks*, Chicago; George L. Morris, *Hornblower & Weeks*, Philadelphia

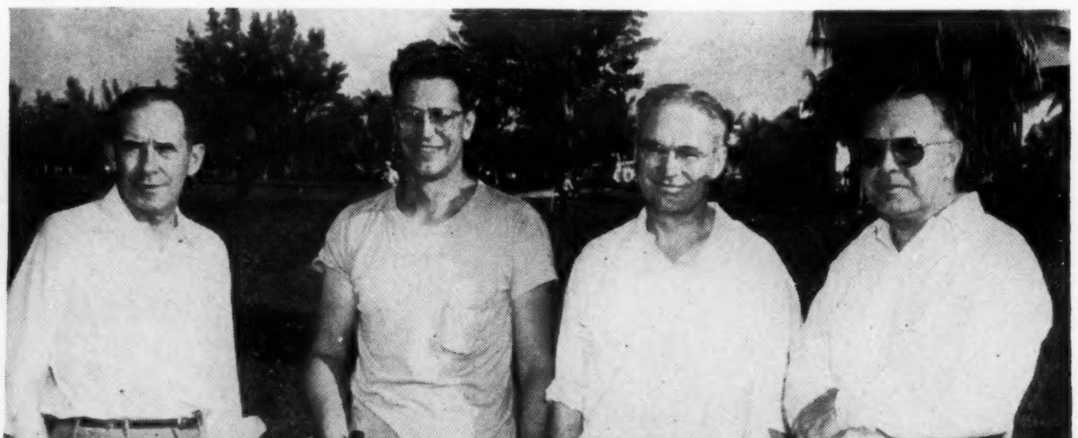
James F. Burns, Jr., *Harris, Upham & Co.*, New York City; C. Newbold Taylor, *W. H. Newbold's Son & Co.*, Philadelphia; Nathan K. Parker, *Kay, Richards & Co.*, Pittsburgh; James D. Winsor, 3rd, *Biddle, Whelen & Co.*, Philadelphia



George W. Elkins, Jr., *Elkins, Morris & Co.*, Philadelphia; Samuel L. Varnedoe, *Varnedoe, Chisholm & Co.*, Savannah; Walter A. Schmidt, *Schmidt, Poole & Co.*, Philadelphia; Edwin B. Horner, *Scott, Horner & Mason*, Lynchburg, Va.



Earl F. Waterman, *Earl F. Waterman & Co.*, Seattle; Harry I. Prankard, 2nd, *Lord, Abbett & Co.*, New York City; William S. Hughes, *Wagenseller & Durst*, Los Angeles, Calif.; Albert R. Hughes, *Lord, Abbett & Co.*, Chicago



Newman L. Dunne, *Robert W. Baird & Co.*, Milwaukee; Milton S. Emrich, *Julien Collins & Co.*, Chicago; John M. Maxwell, *The Northern Trust Co.*, Chicago; William H. Hammond, *Braun, Bosworth & Co.*, Chicago

David B. McElroy, *J. P. Morgan & Co.*, New York City; George E. Clark, *Adamex Securities Corp.*, New York City; Rudolf Smutny, *Salomon Bros. & Hutzler*, New York City; Paul L. Mullaney, *Mullaney, Wells & Co.*, Chicago; F. Bryan Reuter, *Mellon National Bank*, Pittsburgh

Gathering Huge Success

Mrs. George J. Schaust, Minneapolis; Mr. and Mrs. Thompson M. Wakeley, *A. C. Allyn & Co.*, Chicago

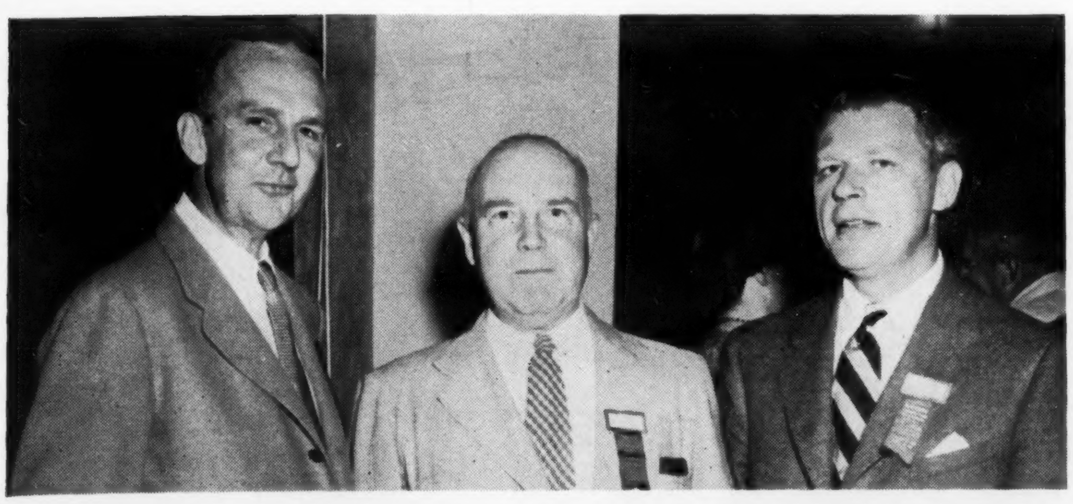
Allen C. Du Bois, *Wertheim & Co.*, New York; Wm. Russell Barrow, *Barrow, Leary & Co.*, Shreveport; Julian A. Space, *Johnson, Lane, Space & Co.*, Savannah; Robert L. Holt, *Blair & Co.*, Chicago

Mrs. J. Earle Jardine, Jr., Los Angeles; Mrs. William S. Hughes, *Wagenseller & Durst,* Los Angeles; Mrs. Carl H. Doerge, Cleveland

Mr. and Mrs. Hugh Bullock, *Calvin Bullock*, New York City; Dillman A. Rash, *J. J. B. Hilliard & Sons,* Louisville, Ky.

Mrs. William H. Sills, Chicago; Mrs. V. Theodore Low, New York City; Mrs. William M. Cahn, Jr., New York City

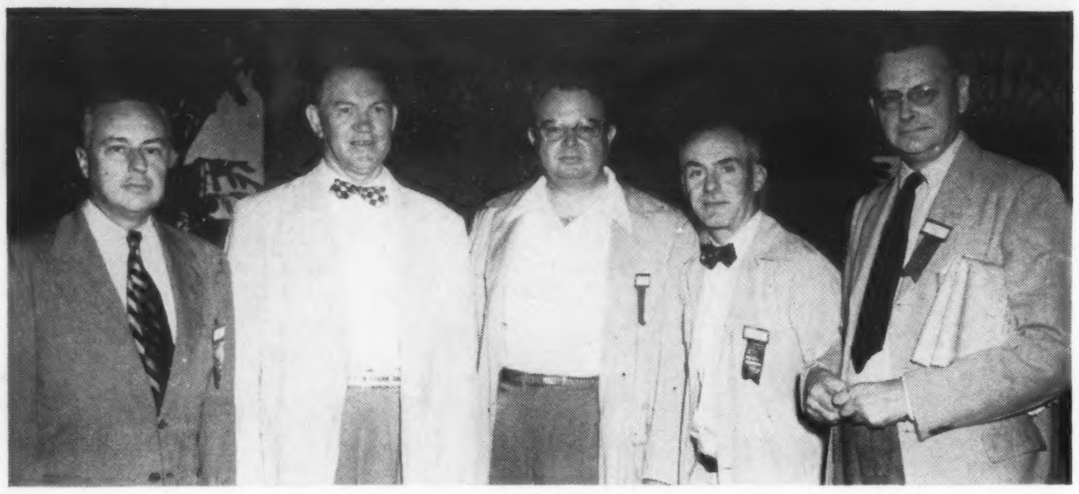
Henry R. Hallowell, *Hallowell, Sulzberger & Co.*, Philadelphia; Mrs. Ewing T. Boles, Columbus, Ohio; Phillips T. Barbour, *First Boston Corp.*, New York



Gordon Crouter, *DeHaven & Townsend, Crouter & Bodine*, Philadelphia; Herbert V. B. Gallager, *Yarnall & Co.*, Philadelphia; Alfred Rauch, *Kidder, Peabody & Co.*, Philadelphia

Francis Adams Truslow, President of the *New York Curb Exchange;* Mrs. Malon C. Courts, Atlanta; Mrs. G. H. Walker, Jr., New York City; Clark Simonds, *G. H. Walker & Co.*, Providence, R. I.

Work and Play Order of Day



Hal H. Dewar, *Dewar, Robertson & Pancoast,* San Antonio; Ewing T. Boles. *The Ohio Company,* Columbus; J. Marvin Moreland, *Rotan, Mosle & Moreland,* Galveston; S. R. Kirkpatrick, *Kirkpatrick-Pettis Co.,* Omaha; Henry G. Riter, 3rd, *Riter & Co.,* New York

Elisha Riggs Jones, *E. R. Jones & Co.,* Baltimore; Norman S. Downey, *Union Securities Corp.,* New York City; Harry H. White, *White, Hattier & Sanford,* New Orleans; James Abrams, *Allen & Co.,* New York City; Reginald Schmidt, *Blyth & Co., Inc.,* New York City; W. Paul Harper, *Boatmen's National Bank,* St. Louis.

The St. Louis Room

Press conference

IBA Staff: (standing) Edwin W. Winter, 2nd; Alden H. Little; Gordon L. Calvert; Murray Hanson; Robert Stevenson, 3rd; Erwin Boehmler; (seated) Mary Lincoln; Judith Rosen; Ellen M. Branson

John A. Prescott, *Prescott, Wright, Snider Co.,* Kansas City, Mo.; George Schindhelm, *California Bank,* Los Angeles; Mrs. Charles J. Fleming; Charles J. Fleming, *Hanrahan & Co.,* Worcester, Mass.

Newspaper Panel—Patrick Carberry, *Wall Street Journal,* New York; Thomas R. Furlong, *Chicago Tribune,* Chicago; William A. Happ, *St. Louis Globe-Democrat,* St. Louis; Ralph Hendershot, *New York World-Telegram,* New York; Robert P. Vanderpoel; David Dillman, Moderator; Paul Heffernan, *New York Times,* New York; John S. Piper, *San Francisco News,* San Francisco; C. Norman Stabler, *Herald Tribune,* New York